

CITY OF UNALASKA, ALASKA



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2019

CITY OF UNALASKA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2019

Prepared by:

Finance Department

CITY OF UNALASKA, ALASKA

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INTRODUCTION SECTION

City of Unalaska

P.O BOX 610
Unalaska, Alaska 99685-0610
(907) 581-1251 FAX (907) 581-1417

December 20, 2019



The Honorable Mayor, Members of the City Council,
and Citizens of the City of Unalaska:

State law requires that all cities annually publish a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Unalaska, Alaska (the City) for the fiscal year ended June 30, 2019.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

KPMG, Certified Public Accountants, has issued an unmodified (clean) opinion on the City's financial statements for the year ended June 30, 2019. The independent auditors' report is located at the front of the financial section of this report. The independent audit of the financial statements of the City was part of a broader, federal and state-mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports will be available in the City's separately issued Single Audit Report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City, incorporated as a first class city in 1942, is located on an island within an archipelago in the southwestern part of the state. The Bering Sea to the north is considered to have one of the most productive fisheries in the country. Located nearly 800 miles from Anchorage, the City, which serves a population of 4,710, currently occupies an area of 215 square miles, of which 46% is seawater. The City of Unalaska is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council. Annexation authority was exercised once in 1986.

The City has operated under the council-manager form of government since 1968. Policy-making and legislative authority are vested in a city council consisting of the mayor and six other members. The city council

is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the city manager. The city manager is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Council members are elected to serve three-year, staggered terms, with two council members elected every year. The mayor is also elected to serve a three-year term. The mayor and council members are all elected at large.

The City provides a full range of services including the following: police and fire protection; emergency medical services; the construction and maintenance of highways, streets, and other infrastructure; recreational activities and cultural events; electrical, water, wastewater, and solid waste services; port, harbor, and airport terminal services; and limited housing for city employees. The City is also financially accountable for a legally separate school district, which is reported separately within the City's financial statements. Additional information on the Unalaska City School District can be found in note 1(a).

The city council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The city manager is authorized to transfer appropriations within a function. Transfers of appropriations between functions, however, require the special approval of the city council.

Local Economy

The City's economy is based primarily on commercial fishing, seafood processing, fleet services and marine transportation. The Port of Dutch Harbor is the only deep draft port in the Arctic Region that is ice free year round. Our Port has been designated a "Port of Refuge" and provides protection and repair for disabled or distressed vessels as well as ground and warehouse storage and transshipment opportunities for the thousands of vessels that fish or transit the waters surrounding the Aleutian Islands on a daily basis.

The City is the home of the western-most container terminal in the United States and is one of the most productive ports for the transshipment of cargo in Alaska. In addition to product shipped domestically to and from this regional hub, product is shipped to ports around the world with weekly shipments headed to Europe and Asia by container ship and freighter. The port serves also as a fueling hub for the Aleutians and provides fuel storage for the Arctic.

The Port is part of the Alaska Marine Highway System which provides essential connectivity for people and goods throughout the Aleutian Islands and into mainland Alaska. This hub activity feeds a marine corridor that connects the State of Alaska and the Arctic Region to the rest of world.

The City is the anchor for commercial fishing activity in the Bering Sea and the Aleutian Islands (BSAI). According to National Oceanic and Atmospheric Administration's (NOAA) latest published report, Fisheries of the United States 2017, the City's Port of Dutch Harbor led the nation with the greatest quantity of fish landed, a distinction held for the past 21 years, and during this time our Port was rated either first or second in value of catch. A catch of 769 million pounds was landed in 2017, which is 13% of all Alaska landings, and 8% of the nation's landings with a value of \$173 million, positioning the City as the number two port in value in the United States for income derived from fishing.

Because the City's economy centers on a single industry, seafood, the tax base is subject to change with fluctuations in fishery harvest levels. One mitigating factor to revenue volatility is the sustainability and good management of the fishery resources in both the state and federal waters of the BSAI.

The National Marine Fisheries Service and the State of Alaska are using the successful management practices of the North Pacific Fisheries Management Council and the State of Alaska Board of Fisheries as a model to improve management in other fishery regions nationwide. The Fisheries in the Bering Sea and Aleutian Islands,

which the City depends on for its economic livelihood, are expected to remain sustainable, well managed, and healthy for the foreseeable future.

Long-Term Financial Planning and Major Initiatives

In continuing efforts to improve budgeting and long-term capital planning, the council, once again, set formal goals before the fiscal year 2019 budget process and prior to preparing the five-year Capital and Major Maintenance Plan (CMMP). Development of long-term maintenance and replacement schedules for capital assets continue to be developed.

The new powerhouse came online in 2010 with two 5.2-megawatt generators. In 2012, a third generator (4.4 megawatt) was installed. A fourth generator was installed in the summer of 2016 as was a waste heat recovery system, which generates approximately 50 kilowatts of electricity using hot water produced by the diesel generators cooling systems. The City is also committed to investigating other sources of electrical power including LNG, wind and geothermal.

The City initiated construction of two new landfill cells. The first cell was put in service in October 2015. The City is continuing to research ways of recycling. At this time, the City is removing monofilament items, predominantly fishnets, and metal from the island to increase the life of the landfill.

To comply with new federal regulations, a new water treatment plant in Pyramid Valley was completed in 2016. This new plant, with a cost of \$17 million, provides treatment for Cryptosporidium, a microorganism that is resistant to chlorine and other disinfectants, and has caused waterborne disease outbreaks in the lower 48.

In 2019, the City began construction for the Unalaska Marine Center (UMC) Expansion and Replacement Project for dock positions 3 and 4. This \$39 million project is considered to be a vital project for business growth at the port. This project removes two aging dock positions and creates 440 feet of working dock face with minimum water depth of 45', and 1.8 acres of uplands, with load capacity to handle major cargos, fueling and larger vessels. The project is on schedule and expected to be complete in the fall of 2019.

In 2019, the City initiated a needs analysis and pre-development process for improvements to the City's Library. Future design and construction will be developed over the next two years.

In 2019, the City began the data collection phase of the Wind Power Development project. This phase will provide data over the next two years to further define the scope of the project and determine the viability of wind energy in Unalaska. The current project budget of \$420,000 includes four measurement towers which carry wind measuring instruments.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Unalaska for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the twentieth consecutive year that the city has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services from the entire staff of Finance Department. We would like to express our appreciation to all who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their support for maintaining the highest standards of professionalism in the management of the City of Unalaska's finances.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'ERIN', with a long, sweeping horizontal line extending to the right.

Erin Reinders
City Manager



Government Finance Officers Association

**CERTIFICATE OF
ACHIEVEMENT FOR
EXCELLENCE IN
FINANCIAL
REPORTING**

Presented to

**CITY OF UNALASKA
ALASKA**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

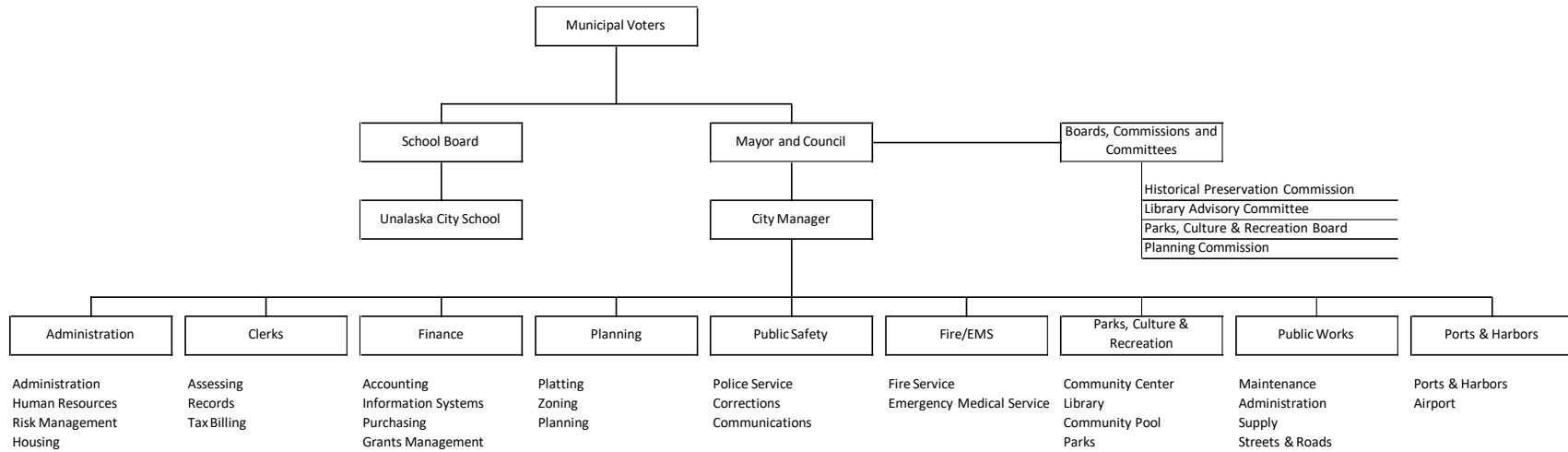
June 30, 2018

Christopher P. Morill

Executive Director/CEO

CITY OF UNALASKA, ALASKA

City of Unalaska Organizational Chart



PRINCIPAL EXECUTIVE OFFICERS

Unalaska City Council

Mayor

Vincent M. Tutiakoff, Sr.

Vice Mayor

Dennis Robinson

Council Member

Dave Gregory

Council Member

Darin Nicholson

Council Member

Alejandro Tungul

Council Member

Sherrie Coleman

Council Member

Jim Fitch

City Management

City Manager

Erin Reinders

Assistant City Manager

J.R. Pearson

City Clerk

Marjie Veeder

Interim Finance Director

James Sharpe

Parks, Culture, and Recreation Director

Roger Blakeley

Planning Director

William Homka

Ports and Harbors Director

Peggy McLaughlin

Acting Police Chief

John Lucking

Interim Fire Chief

Mike Hanson

Public Works Director

Tom Cohenour

Public Utilities Director

Dan Winters

Special Services

Attorney

Boyd, Chandler & Falconer, LLP

Auditors

KPMG LLP

School Board

President

Fernando Barrera

Member

Frank Kelty

Member

Cherry Tan

Member

Robert Cummings

Member

Josh Good

Student Representative

Sean Conwell

School Officials

Superintendent

John Conwell

Secondary Principal

Jim Wilson

Elementary Principal

Chad Eichenlaub

Business Manager

Danielle Whittern

FINANCIAL SECTION



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Honorable Mayor and
Members of the City Council
City of Unalaska, Alaska:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Unalaska, Alaska (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Unalaska, Alaska, as of June 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and 1% Sales Tax Special Revenue Fund for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of the City's proportionate share of the net pension and OPEB liability or asset and contributions on pages 4–13 and 61–64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule, and the introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining and individual nonmajor fund financial statements and schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

December 20, 2019

CITY OF UNALASKA, ALASKA
Management Discussion and Analysis (MD&A)
June 30, 2019

Management of the City of Unalaska offers readers of the City of Unalaska's financial statements this narrative overview and analysis of the financial activities of the City of Unalaska for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Unalaska exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$409,861,702 (net position).
- The city's total net position increased by \$7,371,475.
- As of the close of the current fiscal year, the City of Unalaska's governmental funds reported combined ending fund balances of \$100,534,749, which is an increase of \$9,366,084 from the prior year. Of this total amount, \$31,625,057, is either nonspendable, committed or assigned for emergency operations and general fund projects identified in the City's Capital and Major Maintenance Plan (CMMP).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$68,909,692, or 264% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Unalaska's basic financial statements. The City of Unalaska's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the City of Unalaska's finances in a manner similar to that of a private-sector business.

The *statement of net position* presents information on all of the City of Unalaska's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the City's net position will serve as indicators of whether the financial position of the City of Unalaska is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Unalaska that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Unalaska include general government; public safety; public works; parks, culture, and recreation; community support; and education. The business-type activities of the City of Unalaska include electric, water, wastewater, solid waste, ports and harbors, airport terminal, and housing operations.

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June 30, 2019

The government-wide financial statements include not only the City of Unalaska itself (known as the *primary government*), but also the Unalaska City School District (known as *component unit*), a legally separate entity for which the City of Unalaska is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14–16 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Unalaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Unalaska can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information will be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. In doing so, a better understanding of the long-term impact of the government's near-term financing decisions may be obtained. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Unalaska maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and 1% Sales Tax Special Revenue Fund, all of which are considered major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of *combining statements and schedules*, which can be found on pages 65–66.

The City of Unalaska adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17–22 of this report.

Proprietary Funds

The City of Unalaska maintains only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Unalaska uses enterprise funds to account for its electric, water, wastewater, solid waste, ports and harbors, airport terminal, and housing operations.

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June 30, 2019

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for electric, wastewater, ports and harbors, and solid waste, all of which are considered to be major funds of the City of Unalaska. Airport Terminal and Housing operations are accounted for in separate funds but are not presented as major funds.

The basic proprietary fund financial statements can be found on pages 23–26 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27–60 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Unalaska, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$409,861,702 at the close of the most recent fiscal year.

Approximately 68% of the City of Unalaska’s net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Unalaska uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Unalaska’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental activities		Business-type activities		Total*	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 159,943,231	157,456,176	57,062,742	67,742,022	217,005,973	225,198,198
Capital assets	97,687,815	100,111,678	253,362,135	250,260,748	351,049,950	350,372,426
Total assets	<u>\$ 257,631,046</u>	<u>257,567,854</u>	<u>310,424,877</u>	<u>318,002,770</u>	<u>568,055,923</u>	<u>575,570,624</u>
Deferred outflows of resources	\$ 2,313,114	1,600,527	3,468,968	3,181,584	5,782,082	4,782,111
Long-term liabilities	\$ 13,871,359	15,465,424	85,912,899	94,257,543	99,784,258	109,722,967
Other liabilities	52,533,022	57,866,035	9,638,857	6,255,774	62,171,879	64,121,809
Total liabilities	<u>\$ 66,404,381</u>	<u>73,331,459</u>	<u>95,551,756</u>	<u>100,513,317</u>	<u>161,956,137</u>	<u>173,844,776</u>
Deferred inflows of resources	\$ 1,223,866	2,461,974	796,300	1,555,758	2,020,166	4,017,732
Net position:						
Net investment in capital assets	\$ 97,115,547	98,778,847	180,387,741	178,783,251	277,503,288	277,562,098
Unrestricted	95,200,366	84,596,101	37,158,048	40,332,028	132,358,414	124,928,129
Net position	<u>\$ 192,315,913</u>	<u>183,374,948</u>	<u>217,545,789</u>	<u>219,115,279</u>	<u>409,861,702</u>	<u>402,490,227</u>

* To facilitate ease of presentation, the total columns include the internal balances of \$48,875,748.

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June 30, 2019

The balance of unrestricted net position, \$132,358,414, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current and prior fiscal year, the City of Unalaska is able to report positive balances in both categories of net position, both for the government as a whole, and for its separate governmental and business-type activities.

Deferred outflows of resources increased \$999,971 during 2019 and has three components, deferred outflows of pension related resources, deferred outflows of OPEB related resources, and deferred charge on refunding. The balance for pension related resources increased primarily due to the recognition of deferred outflows of resources for changes in proportion and difference between City contributions and proportionate share of contributions of \$252,977, difference between expected and actual earnings of (\$76,697), and additional contributions subsequent to the measurement date of \$727. The balance for OPEB related resources decreased due to the recognition of deferred outflows of resources for changes in assumptions of \$634,090, proportion and differences between contributions and proportionate share of contributions of \$213,668, and additional contributions subsequent to the measurement date of \$124,924. This was offset by the amortization of deferred charges of the advance refunding of 2009-1 general obligation bonds which resulted in a reacquisition price that exceeded the net carrying amount.

Deferred inflows of resources decreased (\$1,997,566) during 2019 and has two components, deferred inflows of pension related resources, and deferred inflows of OPEB related resources. Deferred inflows of resources related to pensions decreased primarily due to amortization of deferred resources for the changes in proportion and differences between contributions and proportionate share of contributions of (\$2,019,873).

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June 30, 2019

Table 2

	City of Unalaska's Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 275,333	310,922	32,104,178	33,680,713	32,379,511	33,991,635
Operating grants and contributions	1,424,718	1,281,171	954,099	730,861	2,378,817	2,012,032
Capital grants and contributions	—	—	282,400	85,458	282,400	85,458
General revenues:						
Property taxes	6,523,971	6,052,254	—	—	6,523,971	6,052,254
General sales tax	11,084,189	10,738,006	—	—	11,084,189	10,738,006
Raw seafood tax	4,761,506	4,475,150	—	—	4,761,506	4,475,150
Fisheries tax	8,964,862	8,767,704	—	—	8,964,862	8,767,704
Investment earnings	5,213,466	700,045	110,595	—	5,324,061	700,045
Other	1,656,321	1,798,488	—	—	1,656,321	1,798,488
Total revenues	<u>39,904,366</u>	<u>34,123,740</u>	<u>33,451,272</u>	<u>34,497,032</u>	<u>73,355,638</u>	<u>68,620,772</u>
Expenses:						
General government	5,117,904	4,944,478	—	—	5,117,904	4,944,478
Public safety	5,395,695	4,881,352	—	—	5,395,695	4,881,352
Public works	8,809,532	8,697,257	—	—	8,809,532	8,697,257
Parks, culture, and recreation	3,378,955	3,421,811	—	—	3,378,955	3,421,811
Community support	1,768,230	1,168,564	—	—	1,768,230	1,168,564
Education	4,848,402	4,684,606	—	—	4,848,402	4,684,606
Interest on long-term debt	1,044	55,823	—	—	1,044	55,823
Electric	—	—	17,400,278	16,900,199	17,400,278	16,900,199
Water	—	—	2,829,261	2,879,952	2,829,261	2,879,952
Wastewater	—	—	3,527,643	3,382,697	3,527,643	3,382,697
Solid waste	—	—	3,156,811	3,033,170	3,156,811	3,033,170
Ports and harbors	—	—	8,609,757	8,486,786	8,609,757	8,486,786
Airport	—	—	677,861	806,237	677,861	806,237
Housing	—	—	462,790	453,454	462,790	453,454
Total expenses	<u>29,319,762</u>	<u>27,853,891</u>	<u>36,664,401</u>	<u>35,942,495</u>	<u>65,984,163</u>	<u>63,796,386</u>
Increase in net position before transfers	10,584,604	6,269,849	(3,213,129)	(1,445,463)	7,371,475	4,824,386
Transfers	(1,643,639)	(1,575,373)	1,643,639	1,575,373	—	—
Change in net position	8,940,965	4,694,476	(1,569,490)	129,910	7,371,475	4,824,386
Net position, beginning of year, as adjusted	<u>183,374,948</u>	<u>178,680,472</u>	<u>219,115,279</u>	<u>218,985,369</u>	<u>402,490,227</u>	<u>397,665,841</u>
Net position, end of year	<u>\$ 192,315,913</u>	<u>183,374,948</u>	<u>217,545,789</u>	<u>219,115,279</u>	<u>409,861,702</u>	<u>402,490,227</u>

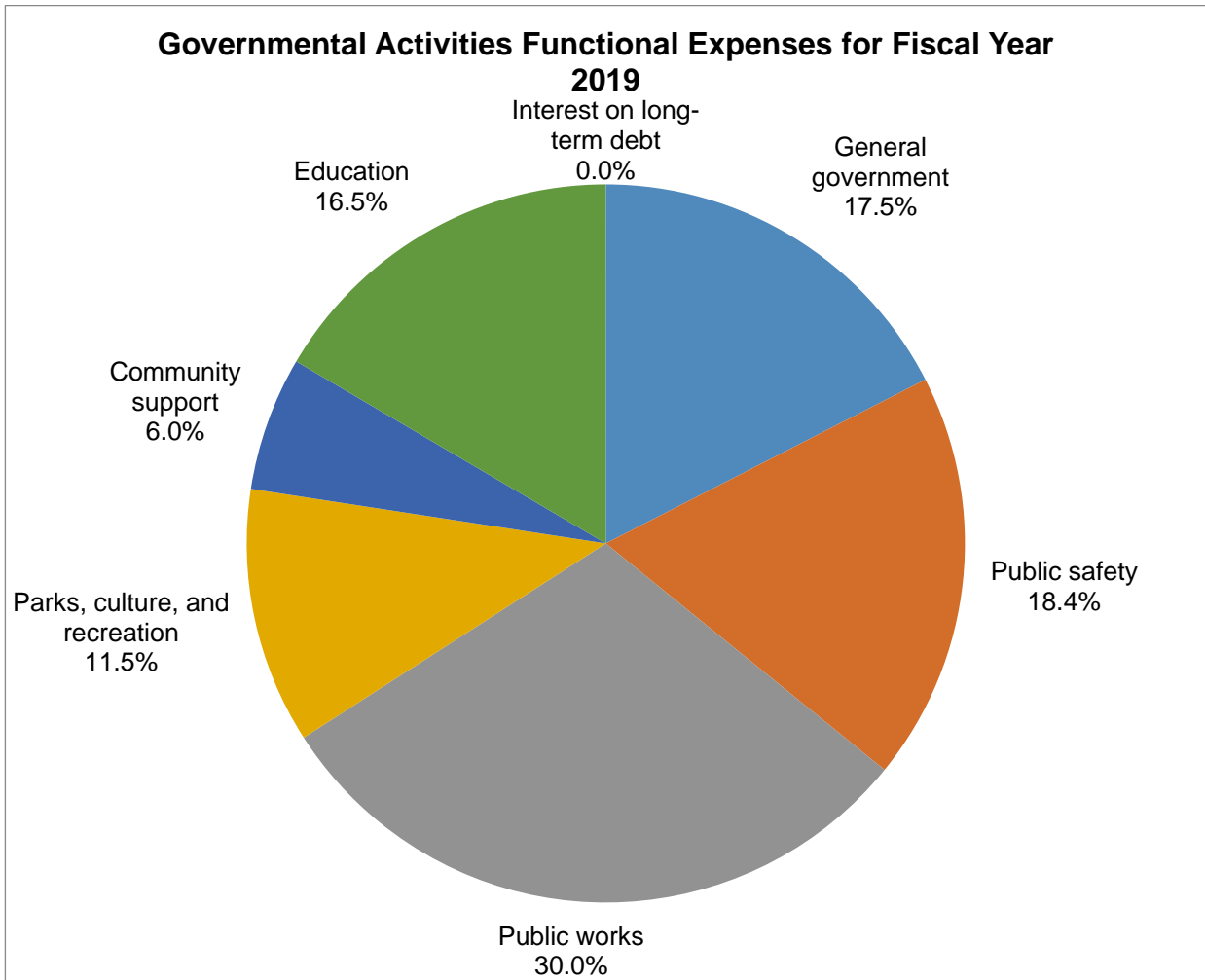
The government's net position increased \$7,371,475 during the current fiscal year. Revenues overall increased 7% or \$4,734,866. The increase is due almost exclusively to investment earnings which increased \$4,624,016 from the prior fiscal year.

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Total expenses increased \$2,187,777 from the prior year due to greater operating costs throughout City departments, none of which were substantial.

Governmental Activities

Governmental activities increased the City of Unalaska's net position by \$8,940,965, due to increases in operating grant revenues, charges for services, operating grants and investment income. Sales tax and Raw Seafood Taxes declined. Expenses increased for personnel and utility costs. Transfers to the Proprietary funds for capital projects declined



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Business-Type Activities

Net position decreased \$1,569,490 for Business-type activities (table 2); this is primarily due to a positive change in net position in the Electric Utility Fund offset by losses in four out of the next five Enterprise Funds. A reduction in revenue of \$1,571,935, comprised of revenue decreases for Electric and Ports and Harbor from the prior year and increases in operating expenses for both funds.

Financial Analysis of the Government's Funds

As noted earlier, the City of Unalaska uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Unalaska's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Unalaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Unalaska's governmental funds reported combined ending fund balances of \$100,534,749, which is an increase of \$9,366,084 from the prior year. Approximately 98% of this total amount, \$98,826,138 constitutes spendable fund balance much of which has been committed for projects identified by the government.

The General Fund is the chief operating fund of the City of Unalaska. At the end of the current fiscal year, spendable fund balance of the General Fund was \$83,711,752, and the total fund balance was \$85,420,363. As a measure of the General Fund's liquidity, both spendable fund balance and total fund balance may be compared to total fund expenditures. Spendable fund balance represents 321% of total General Fund expenditures, while total fund balance represents 327% of that same amount.

The fund balance of the City of Unalaska's General Fund increased by \$8,462,516 during this fiscal year. This increase is primarily due to excess of revenues over expenditures of \$10,335,569.

The fund balance of the City of Unalaska's 1% Sales Tax Fund increased by \$1,280,536. This fund is used to fund capital projects, and the city is building a reserve for projects in the future. This year, \$1,200,000 was transferred to continue a 10-year repayment schedule to the general fund for the Carl E. Moses Small Boat Harbor, \$1,032,021 was transferred to the Wastewater Utility Fund and \$116,612 was transferred to the Solid Waste Utility fund to fund utility operations. A transfer schedule is included in the notes to the financial statements.

Proprietary Funds

The City of Unalaska's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of business-type activities at the end of the year amounted to \$37,008,330. The business-type activities net position decreased by \$1,569,490.

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General Fund Budgetary Highlights

Differences between the original budget and the final budget can be briefly summarized as follows:

- During 2019, the City moved Fire and Emergency Medical Services to their own departments; the Public Safety department now consists of Police, Police Communications, and Police Corrections; budgets were revised accordingly.
- The Community Support budget increased \$500,000 to cover an emergency funding request from the Illuliuk Family Clinic.

Capital Asset and Debt Administration

Capital Assets

The City of Unalaska's net investment in capital assets for its governmental and business-type activities as of June 30, 2019 amounts to \$277,837,872 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The City of Unalaska's net investment in capital assets increased \$275,774 in the current year.

Major capital asset events during the current fiscal year included the following:

- The Citywide Multiple Location Drainage project continued with \$559,185 in current year general fund expenditures.
- The Ilulaq Lake drainage project continued with \$795,025 in current year general fund expenditures.
- The Shore Protection & Erosion Control project was completed at a cost of \$264,862.
- The Electric Utility Fund Powerhouse Battery System Replacement was continued with \$514,712 in expenditures.
- The Wastewater Utility Fund East Point Sewer repairs were completed at a cost of \$439,368.
- The Solid Waste Utility Fund Cells 3 & 4 partial closure continued with \$815,646 in Fund expenditures.
- The Unalaska Marine Center project continued with current year expenditures of \$8,355,039, bringing total expenditures for project to date of \$37,161,196.
- The Entrance Channel Dredging Project continued with current year expenditures of \$250,110.

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Table 3

	City of Unalaska Capital Assets (Net of Accumulated Depreciation)					
	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 31,147,603	31,147,603	3,309,476	3,309,476	34,457,079	34,457,079
Buildings	29,666,694	31,084,228	75,988,818	78,608,986	105,655,512	109,693,214
Infrastructure	28,437,401	31,327,879	147,440,750	112,043,308	175,878,151	143,371,187
Machinery and equipment	2,459,806	2,719,797	20,240,766	22,190,737	22,700,572	24,910,534
Construction in progress	5,976,311	3,732,171	6,382,325	34,108,241	12,358,636	37,840,412
Total capital assets	\$ 97,687,815	100,011,678	253,362,135	250,260,748	351,049,950	350,272,426

Additional information on the City of Unalaska's capital assets can be found in note 3(b) on pages 41–43 of this report.

Long-Term Debt

At the end of the current fiscal year, the City of Unalaska had total debt outstanding of \$72,117,954 (table 4). Of this amount, \$3,115,000 comprises debt backed by the full faith and credit of the government.

Table 4

	City of Unalaska Debt					
	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 385,000	1,295,000	2,730,000	3,435,000	3,115,000	4,730,000
Revenue bonds	—	—	54,170,000	54,775,000	54,170,000	54,775,000
Other contracts and loans	—	—	14,832,954	15,747,914	14,832,954	15,747,914
Total long-term debt	\$ 385,000	1,295,000	71,732,954	73,957,914	72,117,954	75,252,914

The City of Unalaska's total debt decreased by \$3,134,038 (4%) during the current fiscal year. State statutes do not limit the amount of debt a governmental entity may issue. Additional information on the City of Unalaska's long-term debt can be found in note 3(e) on pages 46–51 of this report.

Economic Factors and Next Year's Budgets and Rates

The average unemployment rate for the Aleutians West Region, which includes Unalaska, was 3.5% for calendar year 2018, which is a decrease from a rate of 3.6% in calendar year 2017. Management does not believe either figure is indicative of unemployment within the City's limits. Since the seafood economy is robust in Unalaska while other communities that are more reliant on snow crab and salmon may be experiencing higher unemployment, neither unemployment rate for the region is indicative of unemployment in Unalaska.

Higher oil prices have positively impacted the City's sales tax through marine fuel. Fuel sales generate over half of the City's sales tax. Total sales tax was 39% of governmental activities revenue in fiscal year 2019.

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The City council authorized rate increases in the City's Proprietary funds as of July 1, 2017. Wastewater rates will increase by 2% and 2% in 2020 and 2021, respectively. Solid Waste rates will increase 4.5% for 2020. The goal in approving the increases was to improve self-sufficiency of the operation and minimize taxpayer subsidies. Each enterprise fund is kept on a three-year rate study program when possible.

Requests for Information

This financial report is designed to provide a general overview of the City of Unalaska's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Unalaska, P.O. Box 610, Unalaska, Alaska 99685.

CITY OF UNALASKA, ALASKA

Statement of Net Position

June 30, 2019

Assets and Deferred Outflows of Resources	Primary government				Component unit
	Governmental activities	Business-type activities	Eliminations	Total	Unalaska City School District
Assets:					
Cash and cash equivalents	\$ 2,350,413	150	—	2,350,563	2,769,652
Temporary investments	36,745,926	—	—	36,745,926	—
Receivables:					
Interest	712,238	—	—	712,238	—
Taxes	1,943,762	—	—	1,943,762	—
Accounts, net of allowance for uncollectible amounts of \$50,147	1,243,865	2,096,855	—	3,340,720	117,987
Special assessments	—	16,899	—	16,899	—
Intergovernmental	8,440,455	501,464	—	8,941,919	—
Internal balances	768,240	48,107,508	(48,875,748)	—	—
Inventories	940,371	1,642,566	—	2,582,937	27,499
Prepaid items	—	—	—	—	1,305,551
Restricted assets:					
Cash held by fiscal agent	—	4,697,300	—	4,697,300	—
Cash restricted for health insurance	—	—	—	—	408,445
Long-term investments	106,797,961	—	—	106,797,961	—
Capital assets:					
Not being depreciated	37,123,914	9,691,801	—	46,815,715	42,500
Being depreciated, net	60,563,901	243,670,334	—	304,234,235	222,016
Total assets	257,631,046	310,424,877	(48,875,748)	519,180,175	4,893,650
Deferred outflows of resources:					
Deferred charge on refunding	—	2,021,195	—	2,021,195	—
OPEB related	901,139	562,780	—	1,463,919	374,369
Pension related	1,411,975	884,993	—	2,296,968	462,504
Total deferred outflows of resources	2,313,114	3,468,968	—	5,782,082	836,873
Liabilities and Deferred Inflows of Resources					
Liabilities:					
Accounts payable	2,409,313	2,483,978	—	4,893,291	278,414
Accrued payroll and payroll liabilities	444,983	664,255	—	1,109,238	997,310
Accrued interest	3,850	683,721	—	687,571	—
Deposit payable	2,083	229,490	—	231,573	8,690
Unearned revenue	17,559	—	—	17,559	8,016
Internal balances	48,107,508	208,240	(48,315,748)	—	—
Due to student groups	—	—	—	—	116,869
Noncurrent liabilities:					
Internal balances	—	560,000	(560,000)	—	—
Net OPEB liability	2,366,384	1,512,025	—	3,878,409	777,825
Net pension liability	11,504,975	7,493,659	—	18,998,634	4,474,766
Due within one year	1,547,726	5,704,537	—	7,252,263	—
Due in more than one year	—	76,011,851	—	76,011,851	—
Total liabilities	66,404,381	95,551,756	(48,875,748)	113,080,389	6,661,890
Deferred inflows of resources:					
OPEB related	935,520	607,818	—	1,543,338	329,563
Pension related	288,346	188,482	—	476,828	120,313
Total deferred inflows of resources	1,223,866	796,300	—	2,020,166	449,876
Net position:					
Net investment in capital assets	97,115,547	180,387,741	—	277,503,288	264,516
Restricted for scholarships and community schools	—	—	—	—	203,549
Unrestricted	95,200,366	37,158,048	—	132,358,414	(1,849,308)
Net position	\$ 192,315,913	217,545,789	—	409,861,702	(1,381,243)

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Statement of Activities

Year ended June 30, 2019

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
Current:				
General government	\$ 5,117,904	41,553	33,977	—
Public safety	5,395,695	49,359	562,902	—
Public works	8,809,532	—	46,354	—
Parks, culture, and recreation	3,378,955	184,421	110,667	—
Community support	1,768,230	—	—	—
Education	4,848,402	—	—	—
Interest on long-term debt	1,044	—	670,818	—
Total governmental activities	<u>29,319,762</u>	<u>275,333</u>	<u>1,424,718</u>	<u>—</u>
Business-type activities:				
Electric	17,400,278	17,303,778	785,531	—
Water	2,829,261	2,704,108	58,868	—
Wastewater	3,527,643	2,441,775	12,080	—
Solid waste	3,156,811	2,357,526	13,072	—
Ports and harbors	8,609,757	6,557,217	80,574	282,400
Airport	677,861	489,482	1,932	—
Housing	462,790	250,292	2,042	—
Total business-type activities	<u>36,664,401</u>	<u>32,104,178</u>	<u>954,099</u>	<u>282,400</u>
Total primary government	<u>\$ 65,984,163</u>	<u>32,379,511</u>	<u>2,378,817</u>	<u>282,400</u>
Component unit:				
Unalaska City School District	\$ 9,447,340	372,599	2,137,131	12,000
General revenues:				
Property taxes				
Personal property taxes				
General sales tax				
Raw seafood sales tax				
Fisheries tax				
Other taxes				
Payment in lieu of taxes				
Grants not restricted to specific programs				
Investment earnings				
Support from City of Unalaska				
Other				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

See accompanying notes to financial statements.

Net (expense) revenue and changes in net position				
Primary government				Component Unit Unalaska City School District
Governmental activities	Business- type activities	Total		
\$	(5,042,374)	—	(5,042,374)	—
	(4,783,434)	—	(4,783,434)	—
	(8,763,178)	—	(8,763,178)	—
	(3,083,867)	—	(3,083,867)	—
	(1,768,230)	—	(1,768,230)	—
	(4,848,402)	—	(4,848,402)	—
	669,774	—	669,774	—
	<u>(27,619,711)</u>	<u>—</u>	<u>(27,619,711)</u>	<u>—</u>
	—	689,031	689,031	—
	—	(66,285)	(66,285)	—
	—	(1,073,788)	(1,073,788)	—
	—	(786,213)	(786,213)	—
	—	(1,689,566)	(1,689,566)	—
	—	(186,447)	(186,447)	—
	—	(210,456)	(210,456)	—
	<u>—</u>	<u>(3,323,724)</u>	<u>(3,323,724)</u>	<u>—</u>
	(27,619,711)	(3,323,724)	(30,943,435)	—
	—	—	—	(6,925,610)
	4,554,137	—	4,554,137	—
	1,969,834	—	1,969,834	—
	11,084,189	—	11,084,189	—
	4,761,506	—	4,761,506	—
	8,964,862	—	8,964,862	—
	235,483	—	235,483	—
	866,611	—	866,611	—
	158,480	—	158,480	4,570,179
	5,213,466	110,595	5,324,061	5,151
	—	—	—	3,079,911
	395,747	—	395,747	231,796
	<u>(1,643,639)</u>	<u>1,643,639</u>	<u>—</u>	<u>—</u>
	<u>36,560,676</u>	<u>1,754,234</u>	<u>38,314,910</u>	<u>7,887,037</u>
	8,940,965	(1,569,490)	7,371,475	961,427
	<u>183,374,948</u>	<u>219,115,279</u>	<u>402,490,227</u>	<u>(2,342,670)</u>
\$	<u>192,315,913</u>	<u>217,545,789</u>	<u>409,861,702</u>	<u>(1,381,243)</u>

CITY OF UNALASKA, ALASKA

Governmental Funds

Balance Sheet

June 30, 2019

Assets	General Fund	1% Sales Tax Special Revenue Fund	Total nonmajor funds	Total governmental funds
Cash and cash equivalents	\$ 2,350,413	—	—	2,350,413
Temporary investments	36,745,926	—	—	36,745,926
Receivables, net:				
General	1,243,865	—	—	1,243,865
Interest	712,238	—	—	712,238
Taxes	1,390,244	539,991	13,527	1,943,762
Intergovernmental	8,440,455	—	—	8,440,455
Due from other funds	—	12,236,474	2,512,030	14,748,504
Inventories	940,371	—	—	940,371
Advances to other funds	768,240	—	—	768,240
Long-term investments	106,797,961	—	—	106,797,961
Total assets	\$ 159,389,713	12,776,465	2,525,557	174,691,735
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 2,224,447	—	184,866	2,409,313
Accrued payroll liabilities	444,983	—	—	444,983
Customer deposits	2,083	—	—	2,083
Due to other funds	62,856,012	—	—	62,856,012
Unearned revenues	17,559	—	—	17,559
Total liabilities	65,545,084	—	184,866	65,729,950
Deferred inflows of resources:				
Unavailable revenue – taxes	8,424,266	2,770	—	8,427,036
Fund balances:				
Nonspendable:				
Inventories	940,371	—	—	940,371
Advances to other funds	768,240	—	—	768,240
Committed:				
Emergency operations	13,000,000	—	—	13,000,000
Compensated absences	1,000,000	—	—	1,000,000
Community support	—	—	223,563	223,563
Capital projects	—	12,773,695	2,117,128	14,890,823
Assigned	802,060	—	—	802,060
Unassigned	68,909,692	—	—	68,909,692
Total fund balances	85,420,363	12,773,695	2,340,691	100,534,749
Total liabilities, deferred inflows of resources, and fund balances	\$ 159,389,713	12,776,465	2,525,557	174,691,735

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA
 Reconciliation of Net Position between the
 Government-Wide and Fund Financial Statements
 June 30, 2019

Amounts reported as fund balances on the governmental funds balance sheet	\$ 100,534,749
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	97,687,815
Pension and OPEB related deferred outflows of resources that are not financial resources and, therefore, are not reported in the funds:	
Pension	1,411,975
OPEB	<u>901,139</u>
	<u>2,313,114</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in funds:	
Shared fisheries business tax	3,775,900
Shared fisheries resource landing tax	4,601,634
Real property	25,496
Personal property	16,236
Sales taxes	<u>7,770</u>
	<u>8,427,036</u>
Interest payable on long-term debt and capital leases are not due and payable in the current period and, therefore, are not reported in the funds	(3,850)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
General obligation bonds	(385,000)
Premium on general obligation bonds	(2,402)
Net OPEB liability	(2,366,384)
Net pension liability	(11,504,975)
Compensated absences	<u>(1,160,324)</u>
	<u>(15,419,085)</u>
Pension and OPEB related deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:	
Pension	(288,346)
OPEB	<u>(935,520)</u>
	<u>(1,223,866)</u>
Net position of governmental activities	<u>\$ 192,315,913</u>

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2019

	<u>General Fund</u>	<u>1% Sales Tax SPECIAL Revenue Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
Revenues:				
Taxes:				
General sales	\$ 7,299,723	3,629,169	155,027	11,083,919
Seafood sales	4,761,506	—	—	4,761,506
Real property	4,666,560	—	—	4,666,560
Personal property	2,085,644	—	—	2,085,644
Other	235,483	—	—	235,483
Intergovernmental:				
Fisheries business tax	3,528,499	—	—	3,528,499
Fisheries resource landing tax	5,220,958	—	—	5,220,958
PERS nonemployer contributions	446,142	—	—	446,142
Payments in lieu of taxes	866,611	—	—	866,611
Corrections contract	431,207	—	—	431,207
Debt reimbursement	670,818	—	—	670,818
Other	321,551	—	—	321,551
Charges for services	275,333	—	—	275,333
Investment income	5,213,466	—	—	5,213,466
Other revenues	395,747	—	—	395,747
Total revenues	<u>36,419,248</u>	<u>3,629,169</u>	<u>155,027</u>	<u>40,203,444</u>
Expenditures:				
Current:				
General government	5,103,742	—	—	5,103,742
Public safety	5,618,185	—	—	5,618,185
Public works	5,866,074	—	—	5,866,074
Parks, culture, and recreation	2,851,882	—	—	2,851,882
Community support	1,568,230	—	200,000	1,768,230
Education	4,114,825	—	—	4,114,825
Debt service:				
Principal	910,000	—	—	910,000
Interest	50,741	—	—	50,741
Capital projects	—	—	2,910,042	2,910,042
Total expenditures	<u>26,083,679</u>	<u>—</u>	<u>3,110,042</u>	<u>29,193,721</u>
Excess revenues over expenditures	<u>10,335,569</u>	<u>3,629,169</u>	<u>(2,955,015)</u>	<u>11,009,723</u>
Other financing sources (uses):				
Proceeds from sale of assets	—	—	—	—
Transfers in	1,200,000	—	2,578,047	3,778,047
Transfers out	<u>(3,073,053)</u>	<u>(2,348,633)</u>	<u>—</u>	<u>(5,421,686)</u>
Net other financing sources (uses)	<u>(1,873,053)</u>	<u>(2,348,633)</u>	<u>2,578,047</u>	<u>(1,643,639)</u>
Net change in fund balances	8,462,516	1,280,536	(376,968)	9,366,084
Fund balances, beginning of year	<u>76,957,847</u>	<u>11,493,159</u>	<u>2,717,659</u>	<u>91,168,665</u>
Fund balances, end of year	<u>\$ 85,420,363</u>	<u>12,773,695</u>	<u>2,340,691</u>	<u>100,534,749</u>

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year ended June 30, 2019

Net change in fund balance – total governmental funds	\$ 9,366,084
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	2,883,338
Depreciation expense	(5,245,159)
Proceeds from sale of assets	—
Loss on disposal of capital assets	<u>(62,042)</u>
	<u>(2,423,863)</u>
Governmental funds report pension and OPEB payments as expenditures. However, in the statement of activities, the pension and OPEB costs are actuarially determined – change in:	
Pension	1,272,281
OPEB	<u>678,414</u>
	<u>1,950,695</u>
Revenues in the statement of activities that do not provide current financial resources and are deferred in the funds – change in:	
Shared fisheries business tax	468,910
Shared fisheries resource landing tax	(253,505)
Real property tax	(112,423)
Personal property tax	(115,810)
Sales taxes	<u>270</u>
	<u>(12,558)</u>
The issuance of long-term debt and accrual of compensated absences provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:	
Principal repayments	910,000
Premium on general obligation bonds	35,429
Change in OPEB liability	(566,210)
Change in net pension liability	(327,602)
Change in compensated absences	<u>(5,278)</u>
	<u>46,339</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Accrued interest payable	<u>14,268</u>
Change in net position of governmental activities	\$ <u><u>8,940,965</u></u>

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances – Original and Final Budget and Actual

Year ended June 30, 2019

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual amount</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
General sales	\$ 7,250,000	7,250,000	7,299,723	49,723
Seafood sales	4,200,000	4,200,000	4,761,506	561,506
Real property	4,300,000	4,300,000	4,666,560	366,560
Personal property	1,800,000	1,800,000	2,085,644	285,644
Other	75,000	75,000	235,483	160,483
Intergovernmental:				
Fisheries business tax	3,300,000	3,300,000	3,528,499	228,499
Fisheries resource landing tax	5,000,000	5,000,000	5,220,958	220,958
PERS nonemployer contributions	443,975	443,975	446,142	2,167
Payments in lieu of taxes	503,416	503,416	866,611	363,195
Corrections contract	481,355	481,355	431,207	(50,148)
Debt reimbursement	503,114	503,114	670,818	167,704
Other	442,648	442,648	321,551	(121,097)
Charges for services	319,350	319,350	275,333	(44,017)
Investment income	1,400,000	1,400,000	5,213,466	3,813,466
Other revenues	145,300	145,300	395,747	250,447
Total revenues	<u>30,164,158</u>	<u>30,164,158</u>	<u>36,419,248</u>	<u>6,255,090</u>
Expenditures:				
Current:				
General government	5,412,646	5,432,584	5,103,742	328,842
Public safety	6,601,889	6,633,327	5,618,185	1,015,142
Public works	6,701,122	6,701,122	5,866,074	835,048
Parks, culture, and recreation	3,104,086	3,109,608	2,851,882	257,726
Community support	1,073,752	1,573,752	1,568,230	5,522
Education	4,114,825	4,114,825	4,114,825	—
Debt service:				
Principal	910,000	910,000	910,000	—
Interest	48,313	48,313	50,741	(2,428)
Total expenditures	<u>27,966,633</u>	<u>28,523,531</u>	<u>26,083,679</u>	<u>2,439,852</u>
Excess of revenues over expenditures	<u>2,197,525</u>	<u>1,640,627</u>	<u>10,335,569</u>	<u>8,694,942</u>
Other financing sources (uses):				
Proceeds from the sale of assets	10,000	10,000	—	(10,000)
Transfers in	1,200,000	1,200,000	1,200,000	—
Transfers out	(1,926,671)	—	(3,073,053)	(3,073,053)
Net other financing uses	<u>(716,671)</u>	<u>1,210,000</u>	<u>(1,873,053)</u>	<u>(3,083,053)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ 1,480,854</u>	<u>2,850,627</u>	<u>8,462,516</u>	<u>5,611,889</u>
Fund balances, beginning of year			<u>76,957,847</u>	
Fund balances, end of year			\$ <u>85,420,363</u>	

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

1% Sales Tax Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund balances – Original and Final Budget and Actual

Year ended June 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General sales	\$ 3,625,000	3,625,000	3,629,169	4,169
Total revenues	3,625,000	3,625,000	3,629,169	4,169
Expenditures	—	—	—	—
Excess of revenues over expenditures	3,625,000	3,625,000	3,629,169	4,169
Other financing sources (uses):				
Transfers out	(2,348,633)	(2,348,633)	(2,348,633)	—
Net change in fund balance	\$ <u>1,276,367</u>	<u>1,276,367</u>	1,280,536	<u>4,169</u>
Fund balances, beginning of year			<u>11,493,159</u>	
Fund balances, end of year			\$ <u><u>12,773,695</u></u>	

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Proprietary Funds

Statement of Net Position

June 30, 2019

Assets and Deferred Outflows of Resources	Electric	Wastewater	Solid waste	Ports and harbors	Other proprietary funds	Total
Current assets:						
Cash	\$ —	—	—	150	—	150
Accounts receivables (net of allowance for uncollectibles)	922,358	173,490	178,232	550,611	272,164	2,096,855
Assessments receivable	—	16,169	—	—	730	16,899
Accounts receivable – Intergovernmental	501,464	—	—	—	—	501,464
Due from General Fund	13,336,989	5,185,398	7,644,251	9,575,465	12,365,405	48,107,508
Inventories	1,203,476	29,126	67,588	—	342,376	1,642,566
Total current assets	15,964,287	5,404,183	7,890,071	10,126,226	12,980,675	52,365,442
Noncurrent assets:						
Restricted assets:						
Cash held by fiscal agent	2,382,879	—	—	2,314,421	—	4,697,300
Capital assets, net	56,044,052	34,449,504	17,594,498	118,281,027	26,993,054	253,362,135
Total noncurrent assets	58,426,931	34,449,504	17,594,498	120,595,448	26,993,054	258,059,435
Total assets	74,391,218	39,853,687	25,484,569	130,721,674	39,973,729	310,424,877
Deferred outflows of resources:						
Deferred charge on refunding OPEB related	2,021,195	—	—	—	—	2,021,195
Pension related	186,353	75,267	74,525	124,566	102,069	562,780
	359,033	92,852	108,441	184,841	139,826	884,993
Total deferred outflows of resources	2,566,581	168,119	182,966	309,407	241,895	3,468,968
Liabilities and Deferred Inflows of Resources						
Current liabilities:						
Accounts payable	763,428	132,449	62,570	1,473,703	51,828	2,483,978
Accrued payroll and payroll liabilities	200,267	58,244	89,656	198,016	118,072	664,255
Accrued interest	249,742	81,395	21,491	287,152	43,941	683,721
Bonds, loans, and other liabilities	1,427,181	428,330	254,232	3,077,467	181,963	5,369,173
Advances from general fund	208,240	—	—	—	—	208,240
Customer deposits	118,928	24,136	8,208	—	78,218	229,490
Total current liabilities	2,967,786	724,554	436,157	5,036,338	474,022	9,638,857
Noncurrent liabilities:						
Bonds and loans payable	24,286,534	6,853,280	4,067,704	33,309,704	3,048,369	71,565,591
Advances from general fund	560,000	—	—	—	—	560,000
Net OPEB liability	485,082	221,761	198,169	334,395	272,618	1,512,025
Net pension liability	2,725,586	953,846	934,116	1,581,852	1,298,259	7,493,659
Accrued landfill closure and post closure costs	—	—	4,781,624	—	—	4,781,624
Total noncurrent liabilities	28,057,202	8,028,887	9,981,613	35,225,951	4,619,246	85,912,899
Total liabilities	31,024,988	8,753,441	10,417,770	40,262,289	5,093,268	95,551,756
Deferred inflows of resources:						
OPEB related	190,511	94,767	79,071	134,343	109,126	607,818
Pension related	52,092	40,408	23,918	41,692	30,372	188,482
Total deferred inflows of resources	242,603	135,175	102,989	176,035	139,498	796,300
Net Position						
Net investment in capital assets	33,476,936	27,136,464	13,268,137	82,754,449	23,751,755	180,387,741
Unrestricted	12,213,272	3,996,726	1,878,639	7,838,308	11,231,103	37,158,048
Total net position	\$ 45,690,208	31,133,190	15,146,776	90,592,757	34,982,858	217,545,789

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Proprietary Funds

Statement of Revenues, Expenditures, and Changes in Net Position

Year ended June 30, 2019

	<u>Electric</u>	<u>Wastewater</u>	<u>Solid waste</u>	<u>Ports and harbors</u>	<u>Other proprietary funds</u>	<u>Total</u>
Operating revenues:						
Charges for services	\$ 17,303,778	2,441,775	2,357,526	6,557,217	3,443,882	32,104,178
Total operating revenues	<u>17,303,778</u>	<u>2,441,775</u>	<u>2,357,526</u>	<u>6,557,217</u>	<u>3,443,882</u>	<u>32,104,178</u>
Operating expenses:						
Operations	11,860,257	1,633,060	1,603,808	2,479,289	1,681,541	19,257,955
General and administrative	1,019,810	397,329	323,167	1,049,936	626,821	3,417,063
Landfill closure and post closure care costs	—	—	255,026	—	—	255,026
Depreciation and amortization	3,476,351	1,375,845	907,244	3,640,849	1,593,687	10,993,976
Total operating expenses	<u>16,356,418</u>	<u>3,406,234</u>	<u>3,089,245</u>	<u>7,170,074</u>	<u>3,902,049</u>	<u>33,924,020</u>
Operating income (loss)	<u>947,360</u>	<u>(964,459)</u>	<u>(731,719)</u>	<u>(612,857)</u>	<u>(458,167)</u>	<u>(1,819,842)</u>
Nonoperating revenues (expenses):						
Intergovernmental revenue	785,531	12,080	13,072	80,574	62,842	954,099
Interest income	58,789	—	—	51,806	—	110,595
Interest expense	<u>(1,043,860)</u>	<u>(121,409)</u>	<u>(67,566)</u>	<u>(1,448,683)</u>	<u>(67,863)</u>	<u>(2,749,381)</u>
Net nonoperating revenues (expenses)	<u>(199,540)</u>	<u>(109,329)</u>	<u>(54,494)</u>	<u>(1,316,303)</u>	<u>(5,021)</u>	<u>(1,684,687)</u>
Income (loss) before capital contributions and transfers	747,820	(1,073,788)	(786,213)	(1,929,160)	(463,188)	(3,504,529)
Capital contributions	—	—	—	282,400	—	282,400
Transfers in	220,000	1,032,021	116,612	—	275,006	1,643,639
Change in net position	967,820	(41,767)	(669,601)	(1,646,760)	(188,182)	(1,578,490)
Net position, beginning of year	<u>44,722,388</u>	<u>31,174,957</u>	<u>15,816,377</u>	<u>92,230,517</u>	<u>35,171,040</u>	<u>219,115,279</u>
Net position, end of year	\$ <u>45,690,208</u>	<u>31,133,190</u>	<u>15,146,776</u>	<u>90,583,757</u>	<u>34,982,858</u>	<u>217,536,789</u>

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2019

	<u>Electric</u>	<u>Wastewater</u>	<u>Solid waste</u>	<u>Ports and harbors</u>	<u>Other proprietary funds</u>	<u>Total</u>
Cash flows from operating activities:						
Receipts from customers and users	\$ 17,825,754	2,434,987	2,309,997	6,613,282	3,441,518	32,625,538
Payments to employees for salaries and benefits	(2,520,758)	(974,109)	(1,049,843)	(1,682,188)	(1,387,039)	(7,613,937)
Payments to vendors	(10,829,853)	(1,023,850)	(1,091,263)	(1,965,128)	(1,016,758)	(15,926,852)
Net cash provided by operating activities	<u>4,475,143</u>	<u>437,028</u>	<u>168,891</u>	<u>2,965,966</u>	<u>1,037,721</u>	<u>9,084,749</u>
Cash flows from noncapital and related financing activities:						
Cash received from other governments, including operating subsidies	359,085	—	—	58,887	—	417,972
Transfers in	220,000	1,032,021	116,612	—	275,006	1,643,639
Net cash provided by noncapital and related financing activities	<u>579,085</u>	<u>1,032,021</u>	<u>116,612</u>	<u>58,887</u>	<u>275,006</u>	<u>2,061,611</u>
Cash flows from capital and related financing activities:						
Interest payments on long-term obligations	(1,027,856)	(125,930)	(68,642)	(1,528,299)	(52,106)	(2,802,833)
Decrease (increase) in cash held by fiscal agent	1,908,723	—	—	(49,309)	—	1,859,414
Principal payments on long-term debt obligations	(1,085,000)	(432,843)	(254,232)	(225,000)	(181,963)	(2,179,038)
Repayment of capital projects advances from General Fund	(208,240)	—	—	—	—	(208,240)
Acquisition and construction of capital assets	(481,815)	(1,255,615)	(277,338)	(14,111,549)	(259,982)	(16,386,299)
Payments for closure and postclosure care	—	—	(645,742)	—	—	(645,742)
Capital contributions	—	—	—	736,855	—	736,855
Net cash provided by (used for) capital and related financing activities	<u>(894,188)</u>	<u>(1,814,388)</u>	<u>(1,245,954)</u>	<u>(15,177,302)</u>	<u>(494,051)</u>	<u>(19,625,883)</u>
Cash flows from investing activities:						
Interest income received	58,789	—	—	51,806	—	110,595
Change in cash and due from General Fund	4,218,829	(345,339)	(960,451)	(12,100,643)	818,676	(8,368,928)
Cash and due from other funds, beginning of year	9,118,160	5,530,737	8,604,702	21,676,258	11,546,729	56,476,586
Cash and due from other funds, end of year	<u>\$ 13,336,989</u>	<u>5,185,398</u>	<u>7,644,251</u>	<u>9,575,615</u>	<u>12,365,405</u>	<u>48,107,658</u>
Reconciliation to the statement of net position:						
Cash and cash equivalents	\$ —	—	—	150	—	150
Due from other funds	13,336,989	5,185,398	7,644,251	9,575,465	12,365,405	48,107,508
Cash and due from General Fund, June 30, 2019	<u>\$ 13,336,989</u>	<u>5,185,398</u>	<u>7,644,251</u>	<u>9,575,615</u>	<u>12,365,405</u>	<u>48,107,658</u>

CITY OF UNALASKA, ALASKA

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2019

	<u>Electric</u>	<u>Wastewater</u>	<u>Solid waste</u>	<u>Ports and harbors</u>	<u>Other proprietary funds</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 947,360	(964,459)	(731,719)	(603,857)	(458,167)	(1,810,842)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	3,476,351	1,375,845	907,244	3,640,849	1,593,687	10,993,976
Pension and OPEB related	(197,649)	(71,849)	(77,752)	(128,985)	(106,118)	(582,353)
Amortization of landfill costs	—	—	85,122	—	—	85,122
Changes in assets and liabilities that provided by (used for) cash:						
Accounts receivable	518,748	(10,141)	(47,794)	56,065	(3,656)	513,222
Assessments receivable	—	3,142			(18)	3,124
Inventories	(102,674)	—	(19,439)		(4,535)	(126,648)
Accounts payable	(120,643)	84,912	46,248	(3,411)	4,229	11,335
Accrued payroll and payroll liabilities	(49,578)	19,367	6,716	5,305	10,989	(7,201)
Customer deposits	3,228	211	265	—	1,310	5,014
Net cash provided by operating activities	\$ <u>4,475,143</u>	<u>437,028</u>	<u>168,891</u>	<u>2,965,966</u>	<u>1,037,721</u>	<u>9,084,749</u>
Schedule of noncash capital and noncapital and related financing activities:						
Acquisition and construction of capital assets through accounts payable	\$ 489,235	—	4,425	1,453,828	10,060	1,957,548
Loan forgiveness by the State of Alaska	—	—	—	—	45,000	—
Intergovernmental nonemployer pension and OPEB contributions	33,232	12,080	13,072	21,687	17,842	97,913

See accompanying notes to financial statements.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The City of Unalaska, Alaska (the City), was incorporated in 1942 as a first class city and operates under a Council – Manager form of government. The City provides a variety of services including police and fire protections; electric, water, wastewater, and solid waste services; port harbor and airport terminal services; the construction and maintenance of streets and infrastructure; and recreational activities and cultural events.

As required by U.S. generally accepted accounting principles, these basic financial statements present the City and its component unit (an entity for which the City is considered to be financially accountable). The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City.

(i) Discretely Presented Component Unit – Unalaska City School District

The Unalaska City School District (School District) is responsible for elementary and secondary education within the City's jurisdiction. The members of the School District's governing board are elected by registered voters of the City. However, the School District is fiscally dependent upon the City because the City Council approves the School District's budget, levies taxes to finance operations (if necessary), must approve any debt issuances, and has assumed an obligation to provide financial support.

Complete financial statements of the School District can be obtained from the Unalaska City School District, P.O. Box 570, Unalaska, Alaska 99685.

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been eliminated from the total columns in the statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(c) Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property tax, sales tax, licenses, and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants, including capital grants, recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *1% Sales Tax Special Revenue Fund* accounts for special projects financed by a percentage of sales tax revenues generated.

The City reports the following major proprietary funds:

- The *Electric Utility Fund* accounts for the operations of the City-owned Electric Utility.
- The *Wastewater Utility Fund* accounts for the operations of the City-owned Wastewater Utility.
- The *Solid Waste Fund* accounts for the operations of the City-owned landfill.
- The *Ports and Harbors Fund* accounts for operations at six marine facilities at the International Port of Dutch Harbor.

Additionally, the City reports the following fund types:

Special Revenue Funds – account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

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Capital Project Funds – account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Proprietary Funds – account for business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's various utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Other operating income consists primarily of late fees on unpaid balances and connection fees intended to recover the cost of connecting new customers to the applicable system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

(d) Assets, Liabilities, and Net Position

(i) Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from date of acquisition. In proprietary funds, the City considers changes in amounts due to/from other funds as cash and cash equivalent transactions on the statement of cash flows because the proprietary funds are able to withdraw cash at any time without prior notice or penalty.

There are no statutory limitations on the type of investments allowed; however, there are policies in place listing accepted investment vehicles as noted below:

- a. obligations of the United States and of an agency or instrumentality of the United States;
- b. certificates of deposit; those over the FDIC insurance limit must be secured by eligible collateral as defined in Section 10.0;

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- c. repurchase and agreements secured by obligations of the Treasury of the United States and obligations of an agency or instrumentality of the United States, including agency mortgage-backed securities (MBS). A Master Repurchase Agreement must be signed with the bank or dealer, before repurchase agreements are entered into;
- d. the Alaska Municipal League Investment Pool, Inc. made in accordance with the terms of that Pool's "Common Investment Agreement;" and in accordance with AS 37.23.010-37.23.900;
- e. commercial paper and other short-term taxable instruments that, at the time of investment, maintain the highest rating by at least two nationally recognized rating services;
- f. obligations of a corporation or municipality if the obligations are investment grade (rated BBB or higher by at least one nationally recognized rating service) at the time of investment; this includes asset-backed securities (ABS); and
- g. money market funds in which the securities of the funds consist of obligations listed in this section and otherwise meet the requirements of this investment policy.

Investments shall not be purchased through the use of leveraged funds.

Collateralization is required on two types of investments: certificates of deposit over FDIC insurance limit and repurchase agreements. In order to anticipate market changes and provide a level of security for all monies, the collateralization level is 102% of market value of principal and accrued interest.

All investments are recorded at fair value when quoted market prices are available. Changes in fair value are included as a component of investment income. The City's budget ordinance requires that all investment income be recorded in the General Fund unless state or federal laws, regulations, or grant conditions require otherwise.

The City's budget ordinance requires that all investment earnings that are not legally or contractually required to be recorded in a specific fund must be recorded in the General Fund. The amount of investment earnings that would have otherwise been assigned to other funds is not known.

(ii) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "internal balances" on the statement of net position and as "advances to/from other funds" in the fund level financial statements. In the fund level financial statements, advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable, available financial resources.

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All outstanding current balances between funds are reported as “due to/from other funds” in the fund level financial statements. These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. On the statement of cash flows for proprietary funds, these are treated as cash and cash equivalent transactions.

All trade and property tax receivables are shown net of an allowance for doubtful receivables. The allowance for doubtful receivables is an estimate of the amount uncollectible based on past experience.

Property taxes are levied as of January 1 on property values assessed by an appraisal company. Assessment notices are mailed on or before March 31. Tax bills are mailed on or before June 30. The first half of the payment is due in August and the second half is due in October. Personal property supplemental and involuntary tax rolls are not eligible for two payment dates and are due in full in August. Penalties and interest are assessed the day after the due date.

(iii) Inventories and Prepaid Items

Inventories are valued at cost using the weighted average method. The costs of governmental and proprietary fund inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(iv) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$50,000 (amount not rounded) in governmental funds and \$10,000 (amount not rounded) in proprietary funds and an estimated useful life in excess of two years. All capital assets are reported including those purchased or acquired before June 30, 1980. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets or capital assets received in exchange are recorded at their estimated acquisition value at the date of donation or exchange. Interest incurred during construction is not capitalized on general government capital assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

All capital assets acquired or constructed for general governmental and School District purposes are reported as expenditures in the fund that finances the asset acquisition.

Property and equipment acquired by proprietary funds are reported in those funds at cost or at estimated acquisition value at time of donation.

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Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Utility distribution system and improvements	20–40 years
Buildings and improvements	20–40 years
Motor vehicles and motorized equipment	5–10 years
Furniture, machinery, and equipment	5–10 years
Dock and improvements	20–40 years

(v) *Deposits Payable*

The General Fund holds a refundable customer deposit of \$2,360 to cover damage or additional costs incurred by the City in leasing its recreational facilities.

The Airport Fund holds refundable customer deposits of \$11,000 to cover damage or additional costs incurred by the City in its leasing operations.

The Housing Fund holds refundable customer deposits of \$17,177 to cover damage to its rental properties.

The Electric Utility Fund, Water Utility Fund, Wastewater Utility Fund, and the Solid Waste Fund hold refundable customer deposits of \$115,670, \$48,731, \$23,925, and \$7,943, respectively, to cover equipment held by customers and in the event of nonpayment of utility bills.

(vi) *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused annual leave benefits. All annual leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. During 2019 and in prior years, the General Fund has liquidated the liability for compensated absences.

(vii) *Long-Term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses or expenditures in the period incurred.

In the governmental fund financial statements bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

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Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(viii) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Alaska Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(ix) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Alaska Public Employees Retirement System's (PERS) OPEB Plans and additions to/deductions from the PERS's OPEB Plans fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the PERS Plans' recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(x) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualifies for reporting in this category. A deferred charge on refunding is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City also reports four pension related items in this category, difference between actual and expected experience, changes in assumptions, changes in proportion and differences between City contributions and proportionate share of contributions, and contributions made subsequent to the measurement date. Changes in assumptions, proportion and differences between City contributions and proportionate share of contributions, and differences between actual and expected experience are deferred and amortized into pension expense over the average of the expected remaining service lives of all employees that are provided with pensions through PERS (active employees and inactive employees). Contributions made subsequent to the measurement date are deferred in the year they are contributed and recognized as a reduction in the net pension liability in the subsequent year.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualifies for reporting in this category, one arises only under a modified accrual basis of accounting and one only arises under an accrual basis of accounting. Accordingly, the first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from five sources: real property taxes, personal property taxes, sales taxes, shared fisheries business taxes, and shared fisheries resources landing taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item, net differences between projected and actual earnings on pension plan investments, is reported only in the government-wide statement of net position. These amounts are amortized into pension expense over five years.

(xi) *Fund Equity*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

(xii) *Net Position*

In the government-wide financial statements, net position is reported in three categories; net investment in capital assets; restricted net position; and unrestricted net position. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(xiii) *Recently Adopted and Recently Issued Accounting Pronouncements*

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. This statement is was adopted by the City on July 1, 2018 and the impact from adoption on the City's financial statements was not significant.

In June, 2017, GASB Statement No. 87, *Leases*, was issued. This statement supersedes the lease accounting guidance contained in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement requires a lessee to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers

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ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. This statement is effective for the City for its fiscal year beginning July 1, 2020, permits early adoption, and mandates a retrospective transition method. The City is currently evaluating the effects that the new standard will have on the financial statements.

In March of 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This Statement was adopted on July 1, 2018.

(2) Stewardship, Compliance, and Accountability

(a) Budgetary Information

(i) City

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Capital Projects Funds, which adopt project-length budgets. Governmental funds with adopted annual budgets include the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year-end. Enterprise funds are financed through user charges related to providing goods and services to the general public and have annually adopted operating budgets and project length capital budgets.

The appropriated budget is prepared by fund, function, and department. Budgetary control is exercised at the function level as stated and presented in the ordinance adopting the budget. The City Manager is authorized to transfer budget amounts between expenditure categories within any function; however, any supplemental appropriations that amend the total expenditures of any function or fund require a City ordinance. Reported budgeted amounts are as originally adopted or as amended by ordinance.

The City Council made supplemental budgetary appropriations throughout the year, the majority of which were increases in the Capital Project Funds related to major construction projects. Other supplemental budgetary appropriations in other funds were not considered material.

The City's original budget document is available from the City at P.O. Box 610, Unalaska, Alaska 99685-0610 or on the Web at: www.ci.unalaska.ak.us.

Project budgets are adopted for various Capital Project Funds based on the lives of the construction projects. Expenditure authority is limited to the actual revenue and transfers in.

(ii) School District

The adopted School Operating Fund budget is submitted to the City for approval of the local appropriation, then to the State of Alaska, Department of Education and Early Development for review to determine compliance with Alaska statutes and Department regulations.

CITY OF UNALASKA, ALASKA

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(b) Equity

(i) Net Position Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

(ii) Fund Balance Flow Assumptions

Sometimes, the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

(iii) Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The city council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The city council has by resolution authorized the finance director to assign fund balance, including removal and modification of assigned amounts. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

CITY OF UNALASKA, ALASKA

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The following table shows the composition of the fund balance of the governmental funds for the fiscal year ended June 30, 2019:

	<u>General fund</u>	<u>1% Sales tax</u>	<u>Total nonmajor funds</u>
Nonspendable:			
Inventories	\$ 940,371	—	—
Advances to other funds	768,240	—	—
Total nonspendable	<u>1,708,611</u>	<u>—</u>	<u>—</u>
Committed:			
Emergency operations	13,000,000	—	—
Compensated absences	1,000,000	—	—
Community support	—	—	223,563
Capital projects	—	12,773,695	2,117,128
Total committed	<u>14,000,000</u>	<u>12,773,695</u>	<u>2,340,691</u>
Assigned:			
Purchases on order	802,060	—	—
Capital projects	—	—	—
Total assigned	<u>802,060</u>	<u>—</u>	<u>—</u>
Unassigned	<u>68,909,692</u>	<u>—</u>	<u>—</u>
Total fund balance	\$ <u><u>85,420,363</u></u>	<u><u>12,773,695</u></u>	<u><u>2,340,691</u></u>

(3) Detailed Notes on All Funds

(a) Cash and Investments

The City maintains a cash and investment pool for use by all funds.

(i) Deposits

At June 30, 2019, the City's carrying amount of bank deposits was \$2,348,863 and the bank balance was \$2,949,789. The \$600,926 difference represents outstanding checks and other reconciling items.

(ii) Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. As of June 30, 2019, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(iii) *Interest Rate Risk*

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than five years.

(iv) *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City is authorized by City Council resolution to invest in, and is restricted to, the following types of securities:

- (1) obligations of the United States and of an agency or instrumentality of the United States;
- (2) certificates of deposit; those over the FDIC insurance – must be secured by eligible collateral as defined in Section 10.0 of the City's investment policy;
- (3) repurchase and agreements secured by obligations of the Treasury of the United States and obligations of an agency or instrumentality of the United States, including MBS. A Master Repurchase Agreement must be signed with the bank or dealer, before repurchase agreements are entered into;
- (4) the Alaska Municipal League Investment Pool, Inc. made in accordance with the terms of that Pool's "Common Investment Agreement;" and in accordance with AS 37.23.010-37.23.900;
- (5) commercial paper and other short-term taxable instruments that, at the time of investment, maintain the highest rating by at least two nationally recognized rating services;
- (6) obligations of a corporation or municipality – if the obligations are investment grade (rated BBB or higher by at least one nationally recognized rating service) at the time of investment; this includes ABS and;
- (7) money market funds in which the securities of the funds consist of obligations listed in this section and otherwise meet the requirements of the investment policy.

Investments shall not be purchased through the use of leveraged funds.

At June 30, 2019, the City bonds were rated as follows:

Investment	Standard & Poor's	Moody's Investor Service
Domestic corporate bonds	AA- to BBB-	AA- to BAA3
Foreign corporate bonds	BBB	BBA3
Asset-backed securities	AAA	AAA

CITY OF UNALASKA, ALASKA

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(v) *Investments*

As of June 30, 2019, the City has the following investments and maturities:

	Fair value	Investment maturities (in years)				
		Less than 1	1-2	2-3	3-5	More than 5
AML Investment Pool	\$ 36,745,926	36,745,926	—	—	—	—
Wells Fargo money market	247,709	247,709	—	—	—	—
Private debt obligations	414,852	—	414,852	—	—	—
U.S. government obligations	63,360,587	—	28,209,133	32,630,754	2,520,700	—
Corporate bonds	33,598,578	1,349,771	11,502,462	19,598,597	1,147,748	—
Mortgage/asset-backed securities	9,176,235	—	1,368,029	2,586,618	5,221,588	—
	<u>\$ 143,543,887</u>	<u>38,343,406</u>	<u>41,494,476</u>	<u>54,815,969</u>	<u>8,890,036</u>	<u>—</u>

Reconciliation of cash and investments to the amounts on the statement of net position is as follows:

Cash and cash equivalents:	
Petty cash	\$ 1,700
Demand deposits	<u>2,348,863</u>
Total cash	<u>\$ 2,350,563</u>
Investments:	
Temporary investments	\$ 36,745,926
Long-term investments	<u>106,797,961</u>
	<u>\$ 143,543,887</u>

The Alaska Municipal League Investment Pool, Inc. (AMLIP) represents the City's share of ownership in the pool rather than ownership of specific securities. AMLIP is considered to be an external investment pool as defined by Generally Accepted Accounting Principles. AMLIP is not SEC-registered and is unrated. Regulatory oversight of the pool is established by Alaska Statute 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager.

The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 2019, the fair value of the investments in the pool approximates amortized cost and is equal to the value of pool shares.

CITY OF UNALASKA, ALASKA

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(vi) *Fair Value Measurements*

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2019:

- U.S. Treasury securities are valued using quoted prices for identical securities in inactive markets (Level 2 inputs)
- Corporate bonds are valued using quoted prices for identical securities in inactive markets (Level 2 inputs)
- Mortgage/asset-backed securities are valued using a matrix pricing model (Level 2 inputs)

(b) Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 31,147,603	—	—	31,147,603
Construction in progress	3,732,171	2,848,028	(603,888)	5,976,311
Total	34,879,774	2,848,028	(603,888)	37,123,914
Capital assets, being depreciated:				
Buildings	63,028,221	—	(4,103)	63,024,118
Infrastructure	51,100,834	366,568	(113,211)	51,354,191
Machinery and equipment	10,419,042	304,213	(199,672)	10,523,583
Total	124,548,097	670,781	(316,986)	124,901,892
Less accumulated depreciation for:				
Buildings	(31,843,993)	(1,517,534)	4,103	(33,357,424)
Infrastructure	(19,772,955)	(3,194,780)	50,945	(22,916,790)
Machinery and equipment	(7,699,245)	(564,408)	199,876	(8,063,777)
Total	(59,316,193)	(5,276,722)	254,924	(64,337,991)
Total capital assets, being depreciated, net	65,231,904	(4,605,941)	(62,062)	60,563,901
Governmental-type activities, net	\$ 100,111,678	(1,757,913)	(665,950)	97,687,815

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	<u>Balance June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,309,476	—	—	3,309,476
Construction in progress	<u>34,108,241</u>	<u>14,241,791</u>	<u>(41,967,707)</u>	<u>6,382,325</u>
Total	<u>37,417,717</u>	<u>14,241,791</u>	<u>(41,967,707)</u>	<u>9,691,801</u>
Capital assets, being depreciated:				
Buildings	101,341,326	—	—	101,341,326
Infrastructure	182,870,060	41,558,391	—	224,428,451
Machinery and equipment	<u>33,263,024</u>	<u>363,376</u>	<u>(140,983)</u>	<u>33,485,417</u>
Total	<u>317,474,410</u>	<u>41,921,767</u>	<u>(140,983)</u>	<u>359,255,194</u>
Less accumulated depreciation for:				
Buildings	(22,732,340)	(2,620,168)	—	(25,352,508)
Infrastructure	(70,826,752)	(6,160,949)	—	(76,987,701)
Machinery and equipment	<u>(11,072,287)</u>	<u>(2,212,859)</u>	<u>40,495</u>	<u>(13,244,651)</u>
Total	<u>(104,631,379)</u>	<u>(10,993,976)</u>	<u>40,495</u>	<u>(115,584,860)</u>
Total capital assets, being depreciated, net	<u>212,843,031</u>	<u>30,927,791</u>	<u>(100,488)</u>	<u>243,670,334</u>
Business-type activities, net	<u>\$ 250,260,748</u>	<u>45,169,582</u>	<u>(42,068,195)</u>	<u>253,362,135</u>

Depreciation expense was charged to the departments and functions of the primary government as follows:

General government	\$ 253,804
Public safety	291,495
Public works	3,259,973
Parks, culture, and recreation	706,310
Education	<u>733,577</u>
Total – governmental activities	<u>\$ 5,245,159</u>

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Business-type activities:	
Electric	\$ 3,476,351
Water	1,126,256
Wastewater	1,375,845
Solid waste	907,244
Ports and harbors	3,640,849
Airport	285,266
Housing	<u>182,165</u>
Total – business-type activities	\$ <u><u>10,993,976</u></u>

(c) Interfund Receivables, Payables, and Transfers

Current interfund receivables and payables are shown as “Due from other funds” or “Due to other funds” in the Governmental Fund Balance Sheet and the Proprietary Funds Statement of Net Position and as internal balances in the statement of net position. These balances at June 30, 2019 were as follows:

Receivable	Payable General fund
General fund	\$ —
1% Sales Tax Special Revenue Fund	12,236,474
Nonmajor governmental funds	2,512,030
Electric	13,336,989
Wastewater	5,139,323
Solid waste	7,690,326
Ports and harbors	9,575,465
Nonmajor proprietary funds	<u>12,365,405</u>
	\$ <u><u>62,856,012</u></u>

The outstanding balances between funds result from cash being held in a central treasury in the General Fund.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Interfund receivables and payables that are not current are shown and are also included in internal balances on the statement of net position. These balances at June 30, 2019 were as follows:

	<u>Advances to</u>	<u>Advances from</u>
General fund	\$ —	768,240
Current portion	208,240	—
Long-term portion	<u>560,000</u>	<u>—</u>
	<u>\$ 768,240</u>	<u>768,240</u>

On April 27, 2004, the City Council approved a long-term advance from the General Fund to the Electric Utility Fund in the amount of \$2,800,000 to be paid back in twenty annual installments, interest free. Payments are due on May 1 of each year.

On August 26, 2014, the City Council approved a long-term advance from the General Fund to the Electric Utility Fund in the amount of \$341,200 to be paid back in five annual installments, interest free. Payments are due on May 1 of each year.

A summary of transfers between funds of the City for the year ended June 30, 2019 is as follows:

<u>Transfers in</u>	<u>Transfers out</u>		
	<u>General fund</u>	<u>1% Sales tax</u>	<u>Total transfers in</u>
General fund	\$ —	1,200,000	1,200,000
1% Sales Tax	—	—	—
Nonmajor Gov. Funds	2,578,047	—	2,578,047
Major Enterprise Funds:			
Electric	220,000	—	220,000
Water	—	—	—
Waste water	—	1,032,021	1,032,021
Solid Waste	—	116,612	116,612
Ports and Harbors	—	—	—
Nonmajor Ent. Funds	<u>275,006</u>	<u>—</u>	<u>275,006</u>
	<u>\$ 3,073,053</u>	<u>2,348,633</u>	<u>5,421,686</u>

A summary of significant transfers are as follows:

- The 1% Sales Tax Special Revenue Fund transferred \$1,200,000 to the General Fund for port debt repayment.
- The General Fund transferred \$2,578,047 to the Capital Equipment Project Fund for capital projects approved for the FY19 Capital and Major Maintenance Plan.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

- The 1% Sales Tax Special Revenue Fund transferred \$1,032,021 to the Wastewater Fund to subsidize Wastewater Fund operations.

(d) Operating Leases

On June 30, 1981, the City and Ounalashka Corporation signed a 30 year lease with two 10 year renewal options for land at the Spit Dock. The first 10 year renewal option was entered into on July 1, 2011. Lease payments are \$4,152 per month with the amount to be reevaluated every five years.

On July 6, 1983, the City and the State of Alaska Department of Transportation and Public Facilities entered into a 40 year lease (ADA 05248) for the land for the Airport Terminal. Annual payments of \$9,065 are due July 6 each year, ending July 6, 2023.

On October 2, 1992, the City and North Pacific Fuel entered into a lease agreement for office space for the Port and Harbor Offices. The lease was renewed on January 1, 2018 at a rate of \$3,635 per month.

On January 3, 1996, the City and the State of Alaska Department of Transportation entered into a 40 year lease (ADA 07158) for the Amaknak Fire Station land. Annual payments of \$3,995 are due January 1 each year, ending January 2, 2036.

On May 1, 2000, the City and Ounalashka Corporation entered into a 25 year lease with five 5 year renewal options for land at the Light Cargo Dock. Lease payments are \$5,418 per month with the amount to be reevaluated every 5 years. The next evaluation is in 2020.

On January 1, 2009, the City and the State of Alaska Department of Transportation and Public Facilities entered into a 10-year land use permit (ADA-08620) for the airport long-term parking land. Annual payments of \$2,519 are due January 1 each year, ending December 31, 2019

On July 1, 2016, the City and the United Methodist Ministries entered into a 5 year lease for land for a community ballpark with incremental increases each fiscal year ending June 30, 2021. Rates per year are as follows: FY19-\$18,500, FY20-\$19,500, FY21-\$20,500.

Rent expense for the year ended June 30, 2019 was \$207,480.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

The future commitment for operating lease payments is as follows:

Year(s) ending:			
2020	\$		206,541
2021			149,254
2022			79,962
2023			79,962
2024			70,897
2025–2029			88,978
2030–2034			29,375
2035–2039			5,875
2040–2044			—
			710,844
	\$		710,844

(e) Long-Term Debt

General Obligation Bonds: The City issues general obligation bonds to provide monies for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year.

General obligation bonds currently outstanding are as follows:

		<u>Principal balance</u>
Governmental activities:		
General obligation bonds:		
2015 Series One bonds issued in 2015 for \$1,800,000, interest rates of 2.0% to 4.0% due in annual installments of \$335,000 to \$385,000 to 2020, payable to the Alaska Municipal Bond Bank Authority (Bond Bank)	\$	385,000

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Other debt: The City issues other debt instruments in connection with its business-type activities. Other debt balances are as follows:

	<u>Principle balance</u>
Business-type activities:	
Bonds:	
2017 Series one bonds issued in 2018 for \$29,655,000, interest rates of 3.75% to 5.0%, due in annual installments of \$685,000 to \$1,935,000, beginning in 2020 through 2043, payable to the Bond Bank	\$ 29,655,000
2015 Series One bonds issued in 2015 for \$20,415,000, interest rates of 3.5% to 4.0%, due in annual installments of \$1,055,000 to \$1,785,000, beginning in 2019 through 2034, payable to the Bond Bank	20,415,000
2010 Series A (tax-exempt) General Obligation Harbor Improvement Bond issued in 2010 for \$2,270,000, interest rates of 2% to 5% due in annual installments of \$180,000 to \$440,000 to 2021, payable to the Bond Bank	480,000
2010 Series B (taxable Build America Bond) General Obligation Harbor Improvement Bond issued in 2010 for \$2,730,000, interest rates of 5.995% to 6.341% due in annual installments of \$255,000 to \$355,000, to 2030, payable to the Bond Bank	2,730,000
2010A (tax-exempt) Electric Utility Revenue Bond issued in 2010 for \$2,015,000, interest rates of 2% to 4% due in annual installments of \$195,000 to 255,000, to 2019, payable to the Bond Bank	255,000
2010B (taxable Recovery Zone Economic Development Bond – direct payment) Electric Utility Revenue Bond issued in 2010 for \$3,465,000, interest rates of 4.925% to 5.432% due in annual installments of \$265,000 to \$350,000, to 2030, payable to the Bond Bank	3,365,000
State of Alaska loans:	
2013 1.50% Alaska Clean Water Fund loan payable in annual installments over 20 years	7,281,610
2013 1.50% Alaska Drinking Water Fund loan payable in annual installments over 20 years	3,230,331
2014 1.50% Alaska Clean Water Fund loan payable in annual installments over 20 years	<u>4,321,935</u>
Total	\$ <u><u>71,733,876</u></u>

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(i) *Changes in Long-Term Liabilities*

Changes in long-term liabilities for the year ended June 30, 2019 was as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 1,295,000	—	(910,000)	385,000	385,000
Premium on bonds	37,831	—	(35,429)	2,402	2,402
Net OPEB liability	1,800,175	887,246	(321,037)	2,366,384	—
Net pension liability	11,177,373	1,192,042	(864,440)	11,504,975	—
Compensated absences	<u>1,155,046</u>	<u>1,120,337</u>	<u>(1,115,059)</u>	<u>1,160,324</u>	<u>1,160,324</u>
Governmental activity long-term liabilities	<u>\$ 15,465,425</u>	<u>3,199,625</u>	<u>(3,245,965)</u>	<u>15,419,085</u>	<u>1,547,726</u>
Business-type activities:					
Bonds payable:					
Electric Bonds	\$ 25,120,000	—	(1,085,000)	24,035,000	1,310,000
Ports Bonds	33,090,000	—	(225,000)	32,865,000	920,000
Premium on bonds	<u>3,281,509</u>	<u>—</u>	<u>(177,635)</u>	<u>3,103,874</u>	<u>177,635</u>
Total bonds payable	61,491,509	—	(1,487,635)	60,003,874	2,407,635
Other contracts and loans:					
Water Loans	3,457,294	—	(226,963)	3,230,331	181,963
Wastewater Loans	7,714,453	—	(432,843)	7,281,610	428,330
Solid Waste Loans	4,576,167	—	(254,232)	4,321,935	254,232
Army Corps of Engineers	2,097,013	—	—	2,097,013	2,097,013
Accrued landfill closure and postclosure care costs	5,663,476	255,026	(1,136,878)	4,781,624	—
Net OPEB liability	1,164,709	544,242	(196,926)	1,512,025	—
Net pension liability	7,324,674	699,236	(530,251)	7,493,659	—
Compensated absences	<u>428,445</u>	<u>395,146</u>	<u>(488,227)</u>	<u>335,364</u>	<u>335,364</u>
Business-type activity— long-term liabilities	<u>\$ 93,917,740</u>	<u>1,893,650</u>	<u>(4,753,955)</u>	<u>91,057,435</u>	<u>5,704,537</u>

Annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

	Governmental activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2020	\$ 385,000	7,700	392,700

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Annual debt service requirements to maturity for business-type activities bonds are as follows:

Year(s) ending June 30:	Electric		
	Principal	Interest	Total
2020	\$ 1,310,000	976,042	2,286,042
2021	1,350,000	935,742	2,285,742
2022	1,380,000	899,163	2,279,163
2023	1,410,000	859,646	2,269,646
2024	1,445,000	817,754	2,262,754
2025–2029	8,170,000	2,992,187	11,162,187
2030–2034	8,970,000	899,177	9,869,177
	\$ <u>24,035,000</u>	<u>8,379,711</u>	<u>32,414,711</u>

Year(s) ending June 30:	Ports and harbors		
	Principal	Interest	Total
2020	\$ 920,000	1,519,299	2,439,299
2021	965,000	1,475,649	2,440,649
2022	1,010,000	1,427,399	2,437,399
2023	1,065,000	1,374,367	2,439,367
2024	1,110,000	1,318,435	2,428,435
2025–2029	6,395,000	5,654,381	12,049,381
2030–2034	6,480,000	3,960,336	10,440,336
2035–2039	7,615,000	2,444,750	10,059,750
2040–2044	7,305,000	744,800	8,049,800
	\$ <u>32,865,000</u>	<u>19,919,416</u>	<u>52,784,416</u>

The \$2,097,013 payable to the U.S. Army Corps of Engineers for the Breakwater Improvement Project has been excluded from the schedule above as the timing of payment has not been determined.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Annual debt service requirements to maturity for business-type activities other contracts and loans are as follows:

Year(s) ending June 30:	Other proprietary funds		
	Principal	Interest	Total
2020	\$ 864,524	223,183	1,087,707
2021	864,524	210,215	1,074,739
2022	864,524	197,247	1,061,771
2023	864,524	184,280	1,048,804
2024	864,524	171,312	1,035,836
2025–2029	4,322,622	681,108	5,003,730
2030–2034	4,322,622	356,911	4,679,533
2035–2039	1,866,012	47,092	1,913,104
	<u>\$ 14,833,876</u>	<u>2,071,348</u>	<u>16,905,224</u>

(ii) *Build America Bond*

The City has a \$2,730,000 taxable Build America Bond (2010 Series B General Obligation Harbor Improvement Bond). The City will be reimbursed for 35% of the interest associated with this bond by the U.S. Treasury through the American Recovery and Reinvestment Act.

(iii) *Recovery Zone Economic Development Bond*

The City has a \$3,365,000 taxable Recovery Zone Economic Development Bond (2010B Electric Utility Revenue Bond). The City will be reimbursed for 45% of the interest associated with this bond by the U.S. Treasury through the American Recovery and Reinvestment Act.

(iv) *Alaska Department of Environmental Conservation Loans*

On October 4, 2013, the City was approved for an \$8,788,200 loan from the Alaska Department of Environmental Conservation for a landfill phase II expansion. As of June 30, 2019, the City has received \$5,084,630 and has closed the loan. Payments began March 1, 2017.

On June 28, 2013, the City was approved for an \$8,566,600 loan from the Alaska Department of Environmental Conservation for a wastewater treatment plant upgrade. As of June 30, 2019, the City has received the entire loan balance and closed the loan. Payments began October 1, 2016.

On July 23, 2012, the City was approved for a \$5,000,000 loan from the Alaska Department of Environmental Conservation for a new water treatment plant. As of June 30, 2019, the City has received \$3,639,257 and closed the loan.

(v) *Defeasance of Debt*

In 2017, the City defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2019, \$19,265,000 of defeased bonds remain outstanding.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(4) Other Information

(a) Risk Management

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets, third-party liability, and errors and omissions; and natural disasters for which the City carries commercial insurance. The City's insurance is on a per-occurrence basis.

The City currently participates in the Alaska Public Entity Insurance (APEI) pool, which covers property and contents, general, auto liability, law enforcement legal liability, errors and omissions, earthquake and flood, marine, and workers compensation. APEI is a public entity risk pool that reinsurers risk above certain levels, thereby relieving the members of the need for additional assessments. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. The Association made no supplemental assessments during the year ended June 30, 2019.

Claims on insurance have not exceeded coverage in any of the last three years.

(b) Landfill Closure and Postclosure Care

State and federal laws and regulations require the City to place a final cover on its current landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the landfill for thirty years after closure. To properly account for these estimated closure and postclosure care costs, the City is recording as an operating expense in each period an amount based on landfill capacity used each year of operation. During 2019, the estimated closure and postclosure care costs were reevaluated and adjusted to reflect conditions as of June 30, 2019. As of June 30, 2019, the City has an accrued liability associated with these estimated closure and postclosure care costs of \$4,781,624, based on the use of 58% of the estimated capacity of the landfill. It is estimated the City will recognize additional \$4,847,934, of expense and liability between July 2018, and the year 2051, the date the landfill is expected to reach full capacity. These amounts are based on what it would cost to perform all the closure and postclosure care functions in 2019. Actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in laws and regulations.

Alaska state law requires that the City provide financial assurances annually for the closure and postclosure care of the landfill. Currently, no assets of the City are restricted for payment of closure and postclosure care costs. Future inflation costs and additional costs that might arise from changes in closure and postclosure requirements (due to change in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

(c) Contingencies

Under the terms of state and federal grants, periodic audits may be performed by funding agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could require reimbursement to the grantor agencies.

In the normal course of its activities, the City is involved in various claims and pending litigation.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Management believes that the outcome of the matters discussed in the preceding paragraphs will not have a material adverse effect on the financial statements of the City. Accordingly, no provision for losses has been recorded.

In May, June, and July 2019, the City was victimized by a phishing email scheme for a total of approximately \$3 million. The City was able to recover approximately \$2.3 million and anticipates insurance recoveries of \$100,000. Insurance recoveries will be recorded in fiscal year 2020 when received. The City is working with the Federal Bureau of Investigation to recover additional amounts. A loss of \$637,862 was recognized in the general fund and allocated between fiscal years 2019 and 2020.

(d) Commitments

Encumbrances outstanding at year-end, including purchase orders, contracts, and other commitments for the expenditure of monies, are reported as committed or assigned fund balances in the governmental funds. Outstanding encumbrances at June 30, 2019 were as follows:

Governmental funds:	
General fund	\$ 802,060
Other nonmajor governmental funds	1,049,203
Total governmental funds	1,851,263
Proprietary funds:	
Electric fund	864,547
Wastewater fund	356,752
Solid Waste fund	168,361
Ports and Harbor fund	3,064,944
Other nonmajor proprietary funds	397,588
Total proprietary funds	4,852,192
Total	\$ 6,703,455

(e) Alaska Public Employees Retirement System (PERS)

(i) PERS – Plan Description and Contributions

All full-time employees and certain permanent part-time employees of the City participate in the PERS – cost-sharing multiple-employer defined benefit pension and postemployment healthcare plans administered by the Commissioner of Administration and the Alaska Retirement Management Board (ARMB). The ARMB has the authority to establish and amend the benefit terms. PERS issues a publicly available financial report that can be obtained at www.doa.alaska.gov/drb/pers/employee/resources/cafr.html.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

PERS provides retirement, disability, death, and postemployment health benefits. Benefits vest with five years of credited service. Employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

PERS benefits are earned based on the following tiers:

- 1) Tier 1 employee: entered system between January 1, 1961 and June 30, 1986 – 5 years credited service for pension and OPEB benefits.
- 2) Tier 2 employee: entered system between July 1, 1986 and June 30, 1996 – 5 years credited service for pension and OPEB benefits.
- 3) Tier 3 employee: entered system between July 1, 1996 and June 30, 2005 – 5 years credited service for pension benefits and 10 years credited service for OPEB benefits.

Active PERS members are required to contribute 6.75% (defined benefit plan – 2% pension cost and 4.75% postemployment healthcare cost) and 8.0% (defined contribution plan) of their annual covered salary and the City is required to contribute at an actuarially determined rates as follows:

	<u>Others</u>	<u>Police/fire</u>
Defined benefit plans:		
Pension	18.27 %	18.27 %
Alaska Healthcare Retirement Trust	4.37	4.37
Occupational Death and Disability	0.26	0.76
Retiree Medical Plan	0.94	0.94
Defined contribution – Pension	4.94	4.94

Alaska Statute 39.35.255(a) capped the employer rate at 22%, with the State of Alaska making a nonemployer contribution for the difference between actuarially-required contribution and the cap. The contribution requirements of plan members and the City are established and may be amended by the ARMB. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

- (A) Amount calculated for the statutory employer contribution rate of 22.00% on eligible salary less:
 - (1) Defined contribution employer matching amount
 - (2) Major medical
 - (3) Occupational death & disability, and

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

(4) Health reimbursement arrangement

The difference is deposited based on an actuarial allocation into the defined benefit plan's pension and healthcare funds.

The defined benefit portion (Tiers I, II and III) of PERS has been closed to new entrants since July 1, 2006.

(ii) *PERS – Defined Benefit Pension Plan*

Pension Benefits

Pension benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2.00% for the first ten years of service and 2.50% for all service over 10 years. The percentage multipliers for all other participants are 2.00% for the first 10 years, 2.25% for the next 10 years, and 2.50% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2.00%.

The Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan's Administrator if the funding ratio of the Plan meets or exceeds 105%. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	18,998,634
State's proportionate share of the net pension liability associated with the City		<u>5,500,348</u>
Total	\$	<u><u>24,498,982</u></u>

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the present value of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating political subdivisions and the State, actuarially determined. At June 30, 2018, the City's proportion was 0.38%, which was an increase of 0.02 from its proportion measured as of June 30, 2017, which was consistent with its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized a pension benefit of \$212,833 and revenue of \$257,536 for support provided by the State. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ 419,593	—
Difference between actual and expected experience	—	476,828
Changes in proportion and differences between City contributions and proportionate share of contributions	481,957	—
City contributions subsequent to the measurement date	<u>1,395,418</u>	<u>—</u>
Total	\$ <u><u>2,296,968</u></u>	<u><u>476,828</u></u>

The City reported \$1,395,418 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2020	\$ 538,793
2021	229,431
2022	(325,107)
2023	(18,395)
2024	—
Thereafter	<u>—</u>
	\$ <u><u>424,722</u></u>

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(iii) PERS – Defined Benefit OPEB Plans

PERS includes three cost sharing OPEB plans. Amounts for the three OPEB plans have been combined as all the amounts related to the ODD and RMP plans are not significant. The combined amounts for OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources are as follows:

Alaska Retiree Healthcare Trust (ARHCT)

ARHCT, a healthcare trust fund of the State, provides major medical coverage to retirees of the defined benefit plan. The ARHCT is self-funded and self-insured. The ARHCT is closed to all new members effective July 1, 2006. Major medical benefits are provided to retirees and their surviving spouses at no premium cost for all Tier 1 members or disabled retirees. Tier 2 and 3 members, and their surviving spouses, must pay the full monthly premium if they are under age 60 and will receive benefits at no premium cost if they are over age 60. Tier 3 members must pay the full monthly premium regardless of their age. Tier 2 and Tier 3 members with less than five years of credited service are not eligible for postemployment healthcare benefits. Tier 2 members who are receiving a conditional benefit and are age eligible are eligible for postemployment healthcare benefits. In addition, peace officers, and their surviving spouses, with 25 years of peace officer membership service and all other members and their surviving spouses with 30 years of membership service receive benefits at no premium cost, regardless of their age or date of hire. Peace officers/firefighters who are disabled between 20 and 25 years must pay the full monthly premium.

Occupational Death and Disability Plan (ODD)

ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS.

Retiree Medical Plan (RMP)

RMP provides major medical coverage to retirees of the DCR Plan. The RMP is self-insured. Members are not eligible to use this plan until they have at least 10 years of service and are Medicare age eligible.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the City reported a liability for its proportionate share of the net OPEB liability that reflected a reduction for State OPEB support provided to the City. The amount recognized by the City as its proportionate share of net OPEB liabilities, the related State support, and the total portion of the net OPEB liabilities that was associated with the City were as follows:

City's proportionate share of the net OPEB liability	\$	3,878,409
State's proportionate share of the net OPEB liability associated with the City (ARHCT)		<u>1,139,084</u>
Total	\$	<u><u>5,017,493</u></u>

The net OPEB liabilities were measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the ARHCT net OPEB liability was based on a projection of the present value of the City's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating political subdivisions and the State, actuarially determined. The City's proportion of the ODD and RMP plans' net OPEB liability (asset) was based on the City's RMP relative to the total actual RMP contributions from all participating political subdivisions and the State. At June 30, 2018, the City's proportion was 0.38% (ARHCT) and 0.66% (ODD and RMP), which were consistent with its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$461,850 and revenue of \$149,538 for support provided by the State. At June 30, 2019, the City reported collective deferred outflows of resources and collective deferred inflows of resources related to OPEB plans from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ —	848,041
Difference between actual and expected experience	—	459,780
Change in assumptions	634,090	—
Changes in proportion and differences between City contributions and proportionate share of contributions	214,605	235,517
City contributions subsequent to the measurement date	<u>615,224</u>	<u>—</u>
Total	\$ <u><u>1,463,919</u></u>	<u><u>1,543,338</u></u>

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

The City reported \$615,224 as deferred outflows of resources related to OPEB plans resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ending June 30:		
2020	\$	(278,985)
2021		(121,524)
2022		(276,551)
2023		(18,114)
2024		67
Thereafter		464
	\$	<u>(694,643)</u>

OPEB Plans' Fiduciary Net Position

Detailed information about the OPEB plans' fiduciary net position is available in the separately issued PERS financial report.

(iv) *PERS – Actuarial Assumptions*

The total pension and OPEB liability for each plan was determined by actuarial valuations as of June 30, 2017, using the following actuarial assumptions, applied to all periods in the measurement, and rolled forward to the measurement date of June 30, 2018:

	<u>Pension</u>	<u>OPEB</u>
on rate	3.12%	3.12%
cted salary increase:		
aded productivity and merit:		
Peace officers and firefighters	4.92 to 9.66%	4.92 to 9.66%
Others	4.34 to 8.55%	4.34 to 8.55%
ment rate of return	8.00%	8.00%
hcare cost trend rates:		
ae-65 medical	N/A	8.8% grading down to 4.4%
ist 65 medical	N/A	5.8% grading down to 4.0%
escription drugs	N/A	5.4% grading down to 4.0%
ipation rates	N/A	100% of system paid members and spouses and 10% of non-system paid members and spouses

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officer/Firefighters, 50% of the time for others. Post-termination mortality rates were based on 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2019 with Projection Scale BB. The total net pension and OPEB liabilities for the June 30, 2018 measurement date was determined by an actuarial valuation date as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target allocation	Long-term expected real rate of return
Asset class:		
Broad domestic equity	24.0 %	8.90 %
Global equity	22.0	7.85
Real estate	17.0	6.20
Fixed income	10.0	1.25
Opportunistic	10.0	4.76
Private equity	9.0	12.06
Absolute return	7.0	4.76
Cash equivalents	1.0	0.66
	<hr/>	
Total	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension and total OPEB liabilities was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, contributions from employers will be made at contractually required rates (based on State statute), and nonemployer contributions from the State will continue to follow current funding policy. Based on those assumptions, the plans' fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Sensitivity of the City's proportionate share of the net pension and OPEB liabilities (asset) to changes in the discount rate

The following presents the City's proportionate share of the net pension and OPEB liabilities (asset) calculated using the discount rate of 8.0%, as well as what the City's proportionate share of the net pension and OPEB liabilities (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

Plan	1% decrease (7.0%)	Discount rate (8.0%)	1% increase (9.0%)
Pension	\$ 25,158,977	18,998,634	13,787,717
ARHCT	7,941,479	3,922,689	554,121
ODD	(120,588)	(128,417)	(134,857)
RMP	162,653	84,137	(66,177)

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates

The following presents the City's proportionate share of the collective net OPEB liability for each plan, as well as what the City's proportionate share of each plans collective net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Plan	1% decrease	Current trend rate	1% increase
ARHCT	\$ 76,146	3,922,689	8,556,224
ODD	N/A	N/A	N/A
RMP	(85,942)	84,137	196,383

(v) *PERS – Defined Contribution Plan*

The State of Alaska Legislature approved SB 141 to create the PERS Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II, or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The ARMB may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan, and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan.

CITY OF UNALASKA, ALASKA

Notes to Financial Statements

June 30, 2019

Employees are required to contribute 8% of their annual covered salary, and the City is required to make the following contributions:

	<u>Others Tier IV</u>	<u>Police/fire Tier IV</u>
Individual account	4.94 %	4.94 %
Health reimbursement arrangement (HRA)*	<u>3.00</u>	<u>3.00</u>
	<u>7.94 %</u>	<u>7.94 %</u>

* HRA – AS 39.30.370 requires that the employer contribute “an amount equal to three percent (3%) of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City’s contribution to PERS, including the HRA contribution, for the year ended June 30, 2019 was \$648,679.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF UNALASKA, ALASKA

Schedule of the City's Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years

Alaska Public Employees Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
City's proportion of the net pension liability	0.38 %	0.36 %	0.44 %	0.33 %	0.25 %	0.24 %	*	*	*	*
City's proportionate share of the net pension liability	\$ 18,998,634	18,502,053	24,593,846	15,959,767	11,730,783	12,364,036	*	*	*	*
State's proportionate share of the net pension liability	<u>5,500,348</u>	<u>6,892,621</u>	<u>3,099,287</u>	<u>4,272,502</u>	<u>10,547,310</u>	<u>12,049,865</u>	*	*	*	*
Total	<u>\$ 24,498,982</u>	<u>25,394,674</u>	<u>27,693,133</u>	<u>20,232,269</u>	<u>22,278,093</u>	<u>24,413,901</u>	*	*	*	*
City's covered-employee payroll	\$ 5,220,800	4,052,595	4,682,104	5,228,987	5,600,920	5,773,350	6,151,465	6,545,274	6,776,880	*
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	363.90 %	456.55 %	525.27 %	305.22 %	209.44 %	214.16 %	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	65.19 %	63.37 %	59.55 %	63.96 %	62.37 %	56.00 %	*	*	*	*

* Information for these years is not available.

Changes in assumptions. Amounts reported in 2019 and 2018 reflect a change in the method of allocating the net pension liability from actual contributions to present value of projected future contributions.

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA
Schedule of City Contributions
Last Ten Fiscal Years
Alaska Public Employees Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contributions	\$ 1,395,418	1,394,691	1,200,784	1,167,149	1,034,346	963,284	811,763	816,945	625,113	656,073
Contributions in relation to the contractually required contributions	<u>(1,395,418)</u>	<u>(1,394,691)</u>	<u>(1,200,784)</u>	<u>(1,167,149)</u>	<u>(1,034,346)</u>	<u>(963,284)</u>	<u>(811,763)</u>	<u>(816,945)</u>	<u>(625,113)</u>	<u>(656,073)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
City's covered-employee payroll	\$ 3,438,941	5,220,800	4,052,595	4,682,104	5,228,987	5,600,920	5,773,350	6,151,465	6,545,274	6,776,880
Contributions as a percentage of covered-employee payroll	40.58 %	26.71 %	29.63 %	24.93 %	19.78 %	17.20 %	14.06 %	13.28 %	9.55 %	9.68 %

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA

Schedule of the City's Proportionate Share of the Net OPEB Liability (Asset)

Last Ten Fiscal Years

Alaska Public Employees Retirement System – OPEB

	AHCRT			ODD			RMP		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
City's proportion of the net OPEB liability	38.22 %	35.81 %	44.02 %	—	—	—	66.12 %	66.58 %	65.43 %
City's proportionate share of the net OPEB liability (asset)	\$ 3,922,688	3,024,628	5,047,603	(128,417)	(94,464)	(85,058)	84,137	34,719	60,311
State's proportionate share of the net OPEB liability	1,139,084	1,127,892	—	—	—	—	—	—	—
Total	\$ 5,061,772	4,152,520	5,047,603	(128,417)	(94,464)	(85,058)	84,137	34,719	60,311
City's covered-employee payroll	\$ 3,714,963	4,001,150	4,682,104	7,483,344	6,928,337	6,303,523	7,483,344	6,928,337	6,303,652
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	106 %	76 %	108 %	(2)%	(1)%	(1)%	1 %	1 %	1 %
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	88.12 %	89.68 %	85.45 %	270.62 %	212.97 %	245.29 %	88.71 %	93.98 %	86.82 %

Information for 10 years is not available.

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA

Schedule of City Contributions

Last Ten Fiscal Years

Alaska Public Employees Retirement System – OPEB

	AHCRT			ODD			RMP		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Contractually required contributions	\$ 503,583	397,538	565,081	30,342	15,685	15,979	81,299	77,079	81,755
Contributions in relation to the contractually required contributions	<u>(503,583)</u>	<u>(397,538)</u>	<u>(565,081)</u>	<u>(30,342)</u>	<u>(15,685)</u>	<u>(15,979)</u>	<u>(81,299)</u>	<u>(77,079)</u>	<u>(81,755)</u>
Contribution deficiency (excess)	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
City's covered-employee payroll	\$ 3,438,941	3,714,963	4,001,150	8,648,862	7,483,344	6,928,337	8,648,862	7,483,344	6,928,337
Contributions as a percentage of covered-employee payroll	14.64 %	10.70 %	14.12 %	0.35 %	0.21 %	0.23 %	0.94 %	1.03 %	1.18 %

Information for 10 years is not available.

See accompanying independent auditors' report.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF UNALASKA, ALASKA

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2019

Assets	Bed Tax Special Revenue Fund	Equipment capital projects	Street paving	Total nonmajor funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Receivables, net:				
Taxes	\$ 13,527	—	—	13,527
Due from other funds	<u>210,036</u>	<u>2,138,832</u>	<u>163,162</u>	<u>2,512,030</u>
Total assets	<u>\$ 223,563</u>	<u>2,138,832</u>	<u>163,162</u>	<u>2,525,557</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ —	184,866	—	184,866
Total liabilities	<u>—</u>	<u>184,866</u>	<u>—</u>	<u>184,866</u>
Fund balances committed:				
Community support	223,563	—	—	223,563
Capital projects	<u>—</u>	<u>1,953,966</u>	<u>163,162</u>	<u>2,117,128</u>
Total fund balances	<u>223,563</u>	<u>1,953,966</u>	<u>163,162</u>	<u>2,340,691</u>
Total liabilities and fund balances	<u>\$ 223,563</u>	<u>2,138,832</u>	<u>163,162</u>	<u>2,525,557</u>

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2019

	Bed Tax Special Revenue Fund	Equipment capital projects	Street paving	Total nonmajor funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Taxes	\$ 155,027	—	—	155,027
Total revenues	<u>155,027</u>	<u>—</u>	<u>—</u>	<u>155,027</u>
Expenditures:				
Current:				
Community support	200,000	—	—	200,000
Capital projects	<u>—</u>	<u>2,350,857</u>	<u>559,185</u>	<u>2,910,042</u>
Total expenditures	<u>200,000</u>	<u>2,350,857</u>	<u>559,185</u>	<u>3,110,042</u>
Excess (deficiency) revenues over expenditures	<u>(44,973)</u>	<u>(2,350,857)</u>	<u>(559,185)</u>	<u>(2,955,015)</u>
Other financing sources (uses):				
Transfers in	—	2,578,047	—	2,578,047
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net other financing sources (uses)	<u>—</u>	<u>2,578,047</u>	<u>—</u>	<u>2,578,047</u>
Net change in fund balances	(44,973)	227,190	(559,185)	(376,968)
Fund balances, beginning of year	<u>268,536</u>	<u>1,726,776</u>	<u>722,347</u>	<u>2,717,659</u>
Fund balances, end of year	\$ <u><u>223,563</u></u>	<u><u>1,953,966</u></u>	<u><u>163,162</u></u>	<u><u>2,340,691</u></u>

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA

Bed Tax Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund balance – Budget and Actual

Year ended June 30, 2019

	<u>Final budget</u>	<u>Actual amount</u>	<u>Variance with final budget positive (negative)</u>
Revenues:			
Taxes	\$ 175,000	155,027	(19,973)
Expenditures:			
Community support	<u>175,000</u>	<u>200,000</u>	<u>25,000</u>
Excess (deficiency) of revenues over expenditures	—	(44,973)	(44,973)
Other financing sources (uses):			
Transfers in	<u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balance	\$ <u><u>—</u></u>	<u>(44,973)</u>	<u>(44,973)</u>
Fund balance at beginning of year		<u>268,536</u>	
Fund balance at end of year		\$ <u><u>223,563</u></u>	

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA
Nonmajor Proprietary Funds
Combining Statement of Net Position
June 30, 2019

	Water	Airport	Housing	Total
Assets and Deferred Outflows of Resources				
Current assets:				
Accounts receivables (net of allowance for uncollectibles)	\$ 162,412	106,102	3,650	272,164
Assessment receivable	730	—	—	730
Due from General Fund	9,992,853	1,638,696	733,856	12,365,405
Inventories	342,376	—	—	342,376
Total current assets	10,498,371	1,744,798	737,506	12,980,675
Noncurrent assets:				
Capital assets, net	20,510,872	2,450,292	4,031,890	26,993,054
Total noncurrent assets	20,510,872	2,450,292	4,031,890	26,993,054
Total assets	31,009,243	4,195,090	4,769,396	39,973,729
Deferred outflows of resources:				
OPEB related	79,067	11,440	11,562	102,069
Pension related	109,312	20,786	9,728	139,826
Total assets and deferred outflows of resources	31,197,622	4,227,316	4,790,686	40,215,624
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable	\$ 36,343	9,757	5,728	51,828
Accrued payroll and payroll liabilities	108,431	4,518	5,123	118,072
Accrued interest	43,941	—	—	43,941
Bonds, loans, and other liabilities	181,963	—	—	181,963
Customer deposits	49,911	11,000	17,307	78,218
Total current liabilities	420,589	25,275	28,158	474,022
Noncurrent liabilities:				
Bonds and loans payable	3,048,369	—	—	3,048,369
Net OPEB liability	210,267	31,857	30,494	272,618
Net pension liability	1,021,641	169,942	106,676	1,298,259
Total liabilities	4,700,866	227,074	165,328	5,093,268
Deferred inflows of resources:				
OPEB related	83,904	13,129	12,093	109,126
Pension related	19,972	5,804	4,596	30,372
Total liabilities and deferred inflows of resources	4,804,742	246,007	182,017	5,232,766
Net Position				
Net investment in capital assets	17,270,480	2,450,292	4,030,983	23,751,755
Unrestricted	9,122,400	1,531,017	577,686	11,231,103
Total net position	\$ 26,392,880	3,981,309	4,608,669	34,982,858

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA

Nonmajor Proprietary Funds

Combining Statement of Revenues, Expenditures, and Changes in Net Position

Year ended June 30, 2019

	<u>Water</u>	<u>Airport</u>	<u>Housing</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 2,704,108	489,482	250,292	3,443,882
Total operating revenues	<u>2,704,108</u>	<u>489,482</u>	<u>250,292</u>	<u>3,443,882</u>
Operating expenses:				
Operations	1,165,830	365,753	149,958	1,681,541
General and administrative	469,312	26,842	130,667	626,821
Depreciation and amortization	1,126,256	285,266	182,165	1,593,687
Total operating expenses	<u>2,761,398</u>	<u>677,861</u>	<u>462,790</u>	<u>3,902,049</u>
Operating loss	<u>(57,290)</u>	<u>(188,379)</u>	<u>(212,498)</u>	<u>(458,167)</u>
Nonoperating revenues (expenses):				
Intergovernmental revenue	58,868	1,932	2,042	62,842
Interest expense	<u>(67,863)</u>	<u>—</u>	<u>—</u>	<u>(67,863)</u>
Net nonoperating revenues	<u>(8,995)</u>	<u>1,932</u>	<u>2,042</u>	<u>(5,021)</u>
Loss before capital contributions and transfers	(66,285)	(186,447)	(210,456)	(463,188)
Transfers in	—	—	275,006	275,006
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net position	(66,285)	(186,447)	64,550	(188,182)
Net position, beginning of year	<u>26,459,165</u>	<u>4,167,756</u>	<u>4,544,119</u>	<u>35,171,040</u>
Net position, end of year	\$ <u><u>26,392,880</u></u>	<u><u>3,981,309</u></u>	<u><u>4,608,669</u></u>	<u><u>34,982,858</u></u>

See accompanying independent auditors' report.

CITY OF UNALASKA, ALASKA
Nonmajor Proprietary Funds
Combining Statement of Cash Flows
Year ended June 30, 2019

	<u>Water</u>	<u>Airport</u>	<u>Housing</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,725,555	465,541	250,422	3,441,518
Payments to employees	(1,074,546)	(149,152)	(163,341)	(1,387,039)
Payments to vendors	(624,392)	(263,969)	(128,397)	(1,016,758)
Net cash provided by operating activities	<u>1,026,617</u>	<u>52,420</u>	<u>(41,316)</u>	<u>1,037,721</u>
Cash flows from noncapital and related financing activities:				
Transfers in	—	—	275,006	275,006
Cash flows from capital and related financing activities:				
Interest payments on long-term obligations	(52,106)	—	—	(52,106)
Principal payments on long-term debt obligations	(181,963)	—	—	(181,963)
Acquisition and construction of capital assets	(244,272)	(10,468)	(5,242)	(259,982)
Change in due from General Fund	<u>(478,341)</u>	<u>(10,468)</u>	<u>(5,242)</u>	<u>(494,051)</u>
Due from other funds, beginning of year	548,276	41,952	228,448	818,676
Due from other funds, end of year	<u>9,444,577</u>	<u>1,596,744</u>	<u>505,408</u>	<u>11,546,729</u>
Due from other funds, end of year	<u>\$ 9,992,853</u>	<u>1,638,696</u>	<u>733,856</u>	<u>12,365,405</u>
Reconciliation to balance sheet:				
Due from General Fund	\$ 9,992,853	1,638,696	733,856	12,365,405
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	\$ (57,290)	(188,379)	(212,498)	(458,167)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation and amortization	1,126,256	285,266	182,165	1,593,687
Pension and OPEB related	(82,486)	(11,491)	(12,141)	(106,118)
Changes in assets and liabilities that provided (used) cash:				
Accounts receivable	20,285	(23,941)	—	(3,656)
Assessments receivable	(18)	—	—	(18)
Inventories	(4,535)	—	—	(4,535)
Accounts payable	10,540	(7,841)	1,530	4,229
Accrued payroll and payroll liabilities	12,685	(1,194)	(502)	10,989
Customer deposits	1,180	—	130	1,310
Net cash provided by operating activities	<u>\$ 1,026,617</u>	<u>52,420</u>	<u>(41,316)</u>	<u>1,037,721</u>
Schedule of noncash capital and noncapital and related financing activities:				
Acquisition and construction of capital assets through accounts payable	\$ 10,060	—	—	10,060
Intergovernmental nonemployer pension and OPEB contributions	13,868	1,932	2,042	17,842
Loan forgiveness by the State of Alaska	45,000	—	—	45,000

See accompanying independent auditors' report.

STATISTICAL SECTION

CITY OF UNALASKA, ALASKA

Statistical Section

June 30, 2019

Statistical Section

This part of the City of Unalaska's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Financial Trends	71–77
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	78–83
<i>These schedules contain information to help the reader assess the government's most significant sources of revenue.</i>	
Debt Capacity	84–89
<i>These schedules presents information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	90–91
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	92–93
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

Sources: The City's comprehensive annual financial reports for the previous 10 years, District files, and public records from various local and state agencies.

Table 1

CITY OF UNALASKA, ALASKA

Net Position by Component

Last Ten Fiscal Years

(Accrual basis of accounting)

(Amounts expressed in thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Governmental activities:										
Net investment in capital assets	\$ 78,951	85,914	84,763	87,329	92,389	99,476	102,588	101,301	98,779	97,300
Restricted	—	—	—	—	—	—	—	—	—	—
Unrestricted	60,934	69,731	65,008	69,518	75,878	67,336	77,138	80,027	84,596	95,016
Total governmental activities	<u>\$ 139,885</u>	<u>155,645</u>	<u>149,771</u>	<u>156,847</u>	<u>168,267</u>	<u>166,812</u>	<u>179,726</u>	<u>181,328</u>	<u>183,375</u>	<u>192,316</u>
Business-type activities:										
Net investment in capital assets	\$ 86,670	114,909	125,055	154,863	164,240	185,023	178,831	152,758	178,783	180,537
Restricted	—	—	—	—	—	—	—	—	—	—
Unrestricted	54,362	29,195	45,100	45,102	43,173	31,810	42,058	67,940	40,332	37,008
Total business-type activities	<u>\$ 141,032</u>	<u>144,104</u>	<u>170,155</u>	<u>199,965</u>	<u>207,413</u>	<u>216,833</u>	<u>220,889</u>	<u>220,698</u>	<u>219,115</u>	<u>217,545</u>
Primary government:										
Net investment in capital assets	\$ 165,621	200,823	209,818	242,192	259,411	286,499	281,419	254,059	277,562	277,837
Restricted	—	—	—	—	—	—	—	—	—	—
Unrestricted	115,296	98,926	110,108	114,620	116,269	99,146	119,197	147,967	124,928	132,024
Total primary government activities	<u>\$ 280,917</u>	<u>299,749</u>	<u>319,926</u>	<u>356,812</u>	<u>375,680</u>	<u>385,645</u>	<u>400,616</u>	<u>402,026</u>	<u>402,490</u>	<u>409,861</u>

Table 2

CITY OF UNALASKA, ALASKA

Changes in Net Position

Last Ten Fiscal Years

(Accrual basis of accounting)

(Amounts expressed in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Expenses:										
Governmental activities:										
General government	\$ 3,982	4,191	4,123	4,439	4,773	4,206	4,610	5,061	4,994	5,118
Public safety	4,577	4,477	4,269	5,003	5,229	4,728	5,322	6,104	4,881	5,396
Public works	6,347	6,369	6,746	6,595	6,782	9,504	8,362	9,627	8,697	8,810
Parks, culture, and recreation	3,073	3,146	3,208	3,494	3,670	3,482	3,725	4,079	3,422	3,379
Community support	843	1,626	932	1,258	1,047	1,106	1,139	1,082	1,169	1,768
Education support	4,438	3,828	4,736	4,483	4,683	4,456	4,615	4,622	4,685	4,848
Interest on long-term debt	349	265	431	149	185	148	104	99	56	1
Total governmental activities expenses	23,609	23,902	24,445	25,421	26,369	27,630	27,877	30,674	27,904	29,320
Business-type activities:										
Electric	13,955	13,745	16,757	16,973	18,004	15,363	13,967	15,656	16,900	17,400
Water	2,072	2,227	2,248	2,372	2,600	2,332	2,705	2,973	2,880	2,829
Wastewater	3,947	1,748	4,408	5,504	2,054	1,740	2,518	3,810	3,383	3,528
Solid waste	1,814	1,986	2,093	2,220	2,238	2,670	2,640	3,429	3,033	3,157
Ports and harbors	1,620	4,418	2,299	1,815	6,404	5,928	6,623	7,371	8,487	8,610
Airport	894	777	787	840	799	809	843	862	806	678
Housing	227	355	736	528	463	436	415	431	453	463
Total business-type activities expenses	24,529	25,256	29,328	30,252	32,562	29,278	29,711	34,532	35,942	36,665
Total primary government expenses	\$ 48,138	49,158	53,773	55,673	58,931	56,908	57,588	65,206	63,846	65,985
Program revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 65	12	9	66	12	21	5	19	54	42
Public safety	29	54	8	3	2	83	69	52	82	49
Public works	—	—	—	—	—	—	—	—	—	—
Culture and recreation	204	183	201	222	215	218	205	195	175	184
Operating grants and contributions	1,703	1,604	1,620	1,635	1,540	1,623	1,283	1,136	—	1,425
Capital grants and contributions	63	760	21	59	750	919	686	—	—	—
Total primary government activities program revenues	2,064	2,613	1,859	1,985	2,519	2,864	2,248	1,402	311	1,700

Table 2

CITY OF UNALASKA, ALASKA
 Changes in Net Position
 Last Ten Fiscal Years
 (Accrual basis of accounting)
 (Amounts expressed in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Business-type activities:										
Charges for services:										
Electric	\$ 10,488	12,847	18,295	17,390	18,825	16,571	13,527	17,198	18,493	17,304
Water	1,870	2,020	2,215	2,323	2,208	2,560	2,878	2,810	2,601	2,704
Wastewater	1,334	1,456	1,815	1,898	2,082	2,262	2,373	2,361	2,302	2,442
Solid waste	1,111	1,331	1,555	1,630	1,817	2,197	2,654	2,275	2,292	2,358
Ports and harbors	3,986	5,545	5,459	5,785	6,427	6,538	6,634	6,640	7,265	6,557
Airport	488	458	457	472	481	512	573	518	486	489
Housing	157	127	184	238	245	259	276	236	242	250
Capital grants and contributions	1,162	6,608	4,545	22,721	1,072	9,131	4,048	—	85	282
Operating grants and contributions	213	1,421	995	1,065	7,834	755	804	697	731	954
Total business-type activities program revenues	20,809	31,813	35,520	53,522	40,991	40,785	33,767	32,735	34,497	33,340
Total primary government program revenues	\$ 22,873	34,426	37,379	55,507	43,510	43,649	36,015	34,137	34,808	35,040
Net (expense) revenue:										
Governmental activities	\$ (21,545)	(21,289)	(22,586)	(23,436)	(23,850)	(24,766)	(25,629)	(29,272)	(26,312)	(27,620)
Business-type activities	(3,720)	6,557	6,192	23,270	8,429	11,507	4,056	(1,797)	(1,445)	(3,325)
Total primary government net expense	\$ (25,265)	(14,732)	(16,394)	(166)	(15,421)	(13,259)	(21,573)	(31,069)	(27,757)	(30,945)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
Property taxes	\$ 4,296	4,630	4,750	4,987	5,210	5,709	6,063	6,195	6,052	6,524
General sales tax	8,863	10,755	13,960	13,272	12,554	12,220	11,846	11,307	10,738	11,084
Raw seafood sales tax	3,594	5,372	5,261	4,784	4,450	4,982	5,124	4,657	4,475	4,762
Other taxes	56	158	87	102	118	89	32	38	72	235
Fisheries tax	7,094	7,378	9,324	11,422	8,956	7,198	12,188	8,694	8,768	8,965
Grants not restricted to specific programs	632	811	1,232	1,436	1,364	808	974	571	476	158
Gain (loss) on disposal of capital assets	(6)	—	—	—	4	11	9	7	1	—
Investment earnings	2,650	1,603	1,067	436	742	636	1,307	495	700	5,213
Other	1,326	920	611	878	891	971	823	1,216	1,249	1,262
Transfers	(25,781)	5,459	(19,580)	(6,805)	980	(2,229)	178	(2,307)	(1,575)	(1,643)
Total governmental activities	2,724	37,086	16,712	30,512	35,269	30,395	38,544	30,873	30,956	36,560
Business-type activities:										
Gain (loss) on disposal of capital assets	(39)	—	—	16	—	—	—	(701)	—	—
Investment earnings	57	—	—	—	—	—	—	—	—	111
Other	—	1,974	—	—	—	—	—	—	—	—
Transfers	25,781	(5,459)	19,580	6,805	(980)	2,229	—	2,307	1,575	1,643
Total business-type activities	25,799	(3,485)	19,580	6,821	(980)	2,229	—	1,606	1,575	1,754
Total primary government	\$ 28,523	33,601	36,292	37,333	34,289	32,624	38,544	32,479	32,531	38,314
Change in net position:										
Governmental activities	\$ (18,821)	15,797	(5,874)	7,076	11,419	5,629	12,915	(191)	4,644	8,940
Business-type activities	22,079	3,072	25,772	30,091	7,449	13,736	4,056	1,602	130	(1,571)
Total primary government	\$ 3,258	18,869	19,898	37,167	18,868	19,365	16,971	1,411	4,774	7,369

Table 3

CITY OF UNALASKA, ALASKA
 Governmental Activities Tax Revenues by Source
 Last Ten Fiscal Years
 (Accrual basis of accounting)
 (Amounts expressed in thousands)

<u>Fiscal year</u>	<u>Sales tax</u>	<u>Raw seafood tax</u>	<u>Real property taxes</u>	<u>Personal property taxes</u>	<u>Bed tax</u>	<u>Penalty and interest on taxes</u>	<u>Total</u>
2010	8,713	3,594	2,967	1,282	150	56	16,762
2011	10,598	5,372	3,416	1,214	157	159	20,916
2012	13,960	5,261	3,389	1,361	170	87	24,228
2013	13,272	4,784	3,446	1,541	189	102	23,334
2014	12,554	4,450	3,469	1,741	118	118	22,450
2015	12,220	4,982	3,857	1,852	189	88	23,188
2016	11,846	5,123	4,163	1,900	210	32	23,274
2017	11,306	4,657	4,230	1,965	189	38	22,385
2018	10,738	4,475	4,355	1,697	169	72	21,506
2019	11,084	4,761	4,554	1,970	155	162	22,686

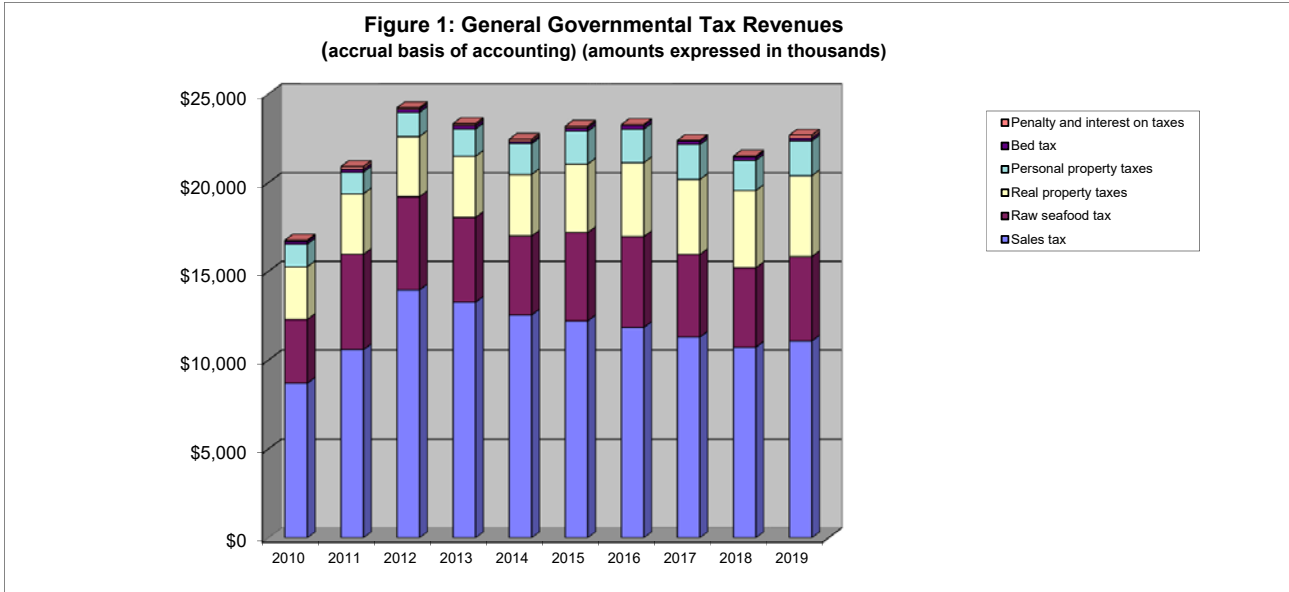


Table 4

CITY OF UNALASKA, ALASKA
 Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified accrual basis of accounting)
 (Amounts expressed in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General fund (after GASB 54):										
Nonspendable	\$ —	2,316	2,282	2,091	2,061	2,337	2,156	2,012	1,849	1,709
Committed	—	34,500	20,300	14,300	14,300	14,300	14,000	14,000	14,000	14,000
Assigned	—	264	190	333	239	234	292	308	119	802
Unassigned	—	10,603	12,509	14,760	29,094	37,888	43,981	53,972	60,990	68,910
General fund (prior to GASB 54):										
Reserved	3,581	—	—	—	—	—	—	—	—	—
Unreserved	35,014	—	—	—	—	—	—	—	—	—
Total general fund	\$ 38,595	47,683	35,281	31,484	45,694	54,759	60,429	70,292	76,958	85,421
All other governmental funds (after GASB 54):										
Committed	\$ —	3,000	3,000	—	3,953	5,188	7,902	10,701	14,211	15,114
Assigned	—	13,488	19,491	28,339	18,601	9,719	6,043	3,142	—	—
Unassigned	—	(78)	—	—	—	(804)	—	—	—	—
All other governmental funds (prior to GASB 54):										
Reserved	3,918	—	—	—	—	—	—	—	—	—
Unreserved, reported in:										
Special revenue funds	3,249	—	—	—	—	—	—	—	—	—
Debt service funds	—	—	—	—	—	—	—	—	—	—
Capital projects funds	10,100	—	—	—	—	—	—	—	—	—
Total all other governmental funds	\$ 17,267	16,410	22,491	28,339	22,554	14,103	13,945	13,843	14,211	15,114

Table 5

CITY OF UNALASKA, ALASKA
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified accrual basis of accounting)
 (Amounts expressed in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues:										
Taxes	\$ 16,763	20,901	24,018	23,191	22,286	23,060	22,923	22,033	21,429	22,833
Intergovernmental	12,742	10,747	11,127	13,197	16,047	15,330	10,811	15,091	11,153	11,486
Changes for services	298	250	210	290	229	322	279	266	311	275
Investment income	2,650	1,603	1,067	436	742	636	1,307	495	700	5,213
Other	206	99	—	104	121	296	178	382	400	396
Total revenues	32,659	33,600	36,422	37,218	39,425	39,644	35,498	38,267	33,993	40,203
Expenditures:										
General government	4,013	—	3,917	4,291	4,457	4,578	4,137	4,082	4,553	5,104
Public safety	4,308	4,237	4,030	4,707	4,944	5,417	5,051	4,966	4,929	5,616
Public works	5,203	5,143	5,132	5,275	5,545	5,861	5,341	5,409	6,049	5,866
Parks, culture, and recreation	2,139	2,194	2,233	2,440	2,615	2,722	2,532	2,585	2,636	2,852
Community support	843	920	932	1,258	1,046	1,106	1,139	1,082	1,169	1,768
Education support	3,736	3,828	4,024	3,822	4,023	3,869	3,879	3,886	3,946	4,115
Debt service:										
Principal	771	823	834	720	755	780	805	835	875	910
Interest	337	325	397	165	212	184	150	119	86	51
Capital projects	6,379	9,795	1,664	5,695	8,017	10,894	6,961	3,241	1,142	2,910
Total expenditures	27,729	27,265	23,163	28,373	31,614	35,411	29,995	26,205	25,385	29,192
Excess of revenues over expenditures	4,930	6,335	13,259	8,845	7,811	4,233	5,503	12,062	8,608	11,011
Other financing sources (uses):										
Proceeds from long-term debt	—	—	—	—	—	11	—	—	—	—
Refunding bonds issued	255	—	—	—	—	1,930	—	—	—	—
Payments to refunded bond escrow agent	(248)	—	—	—	—	(1,930)	—	—	—	—
Transfers in	13,206	11,683	15,681	15,358	6,353	11,822	4,604	5,709	3,192	3,778
Transfers out	(38,987)	(6,224)	(35,261)	(22,163)	(5,748)	(15,452)	(4,604)	(8,016)	(4,767)	(5,422)
Other	102	8	—	9	9	—	9	7	1	—
Total other financing sources (uses)	(25,672)	5,467	(19,580)	(6,796)	614	(3,619)	9	(2,300)	(1,574)	(1,644)
Net change in fund balance	\$ (20,742)	11,802	(6,321)	2,049	8,425	614	5,512	9,762	7,034	9,367
Debt service as a percentage of noncapital expenditures	5.2 %	6.6 %	5.7 %	3.9 %	4.1 %	3.9 %	4.1 %	4.2 %	4.0 %	3.7 %

CITY OF UNALASKA, ALASKA
 Governmental Expenditures
 Last Ten Fiscal Years

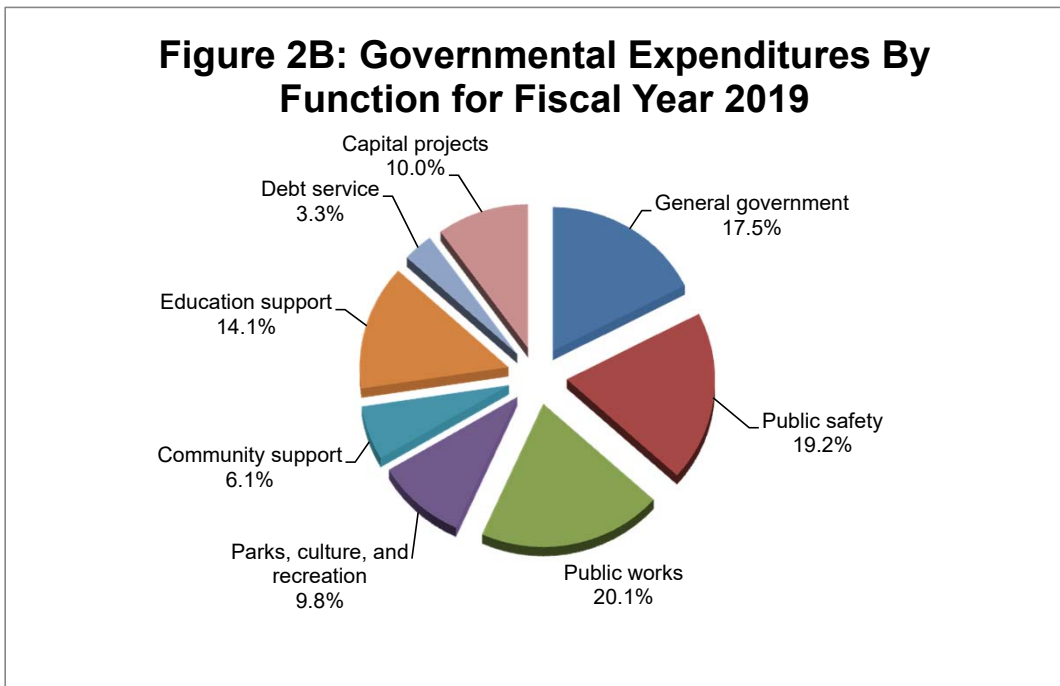
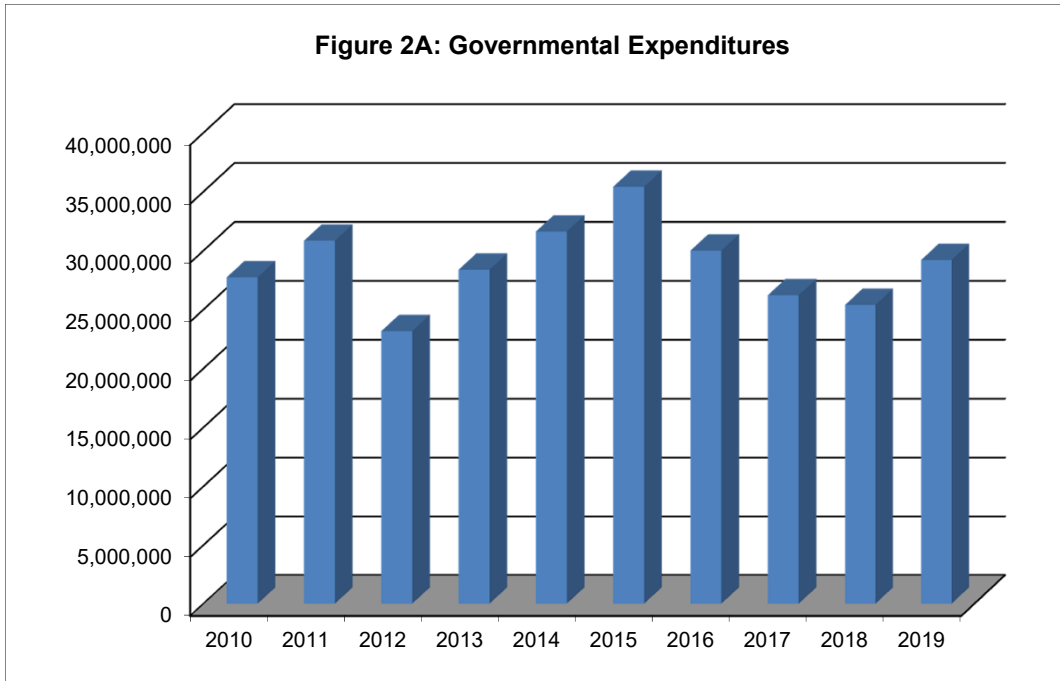


Table 7

CITY OF UNALASKA, ALASKA
 General Governmental Tax Revenues by Source
 Last Ten Fiscal Years
 (Modified accrual basis of accounting)
 (Amounts expressed in thousands)

<u>Fiscal year</u>	<u>Sales tax</u>	<u>Raw seafood tax</u>	<u>Real property taxes</u>	<u>Personal property taxes</u>	<u>Bed tax</u>	<u>Penalty and interest on taxes</u>	<u>Total</u>
2010	\$ 8,713	3,594	2,967	1,282	150	56	16,762
2011	10,772	5,372	3,384	1,214	157	159	21,058
2012	13,790	5,261	3,364	1,367	170	87	24,039
2013	13,084	4,784	3,494	1,539	189	102	23,192
2014	12,385	4,450	3,451	1,713	169	118	22,286
2015	12,031	4,982	3,862	1,907	189	89	23,060
2016	11,846	5,123	4,085	1,836	210	32	23,132
2017	11,307	4,657	4,234	1,798	189	38	22,223
2018	10,568	4,475	4,348	1,796	170	72	21,429
2019	11,084	4,762	4,667	2,086	155	162	22,916

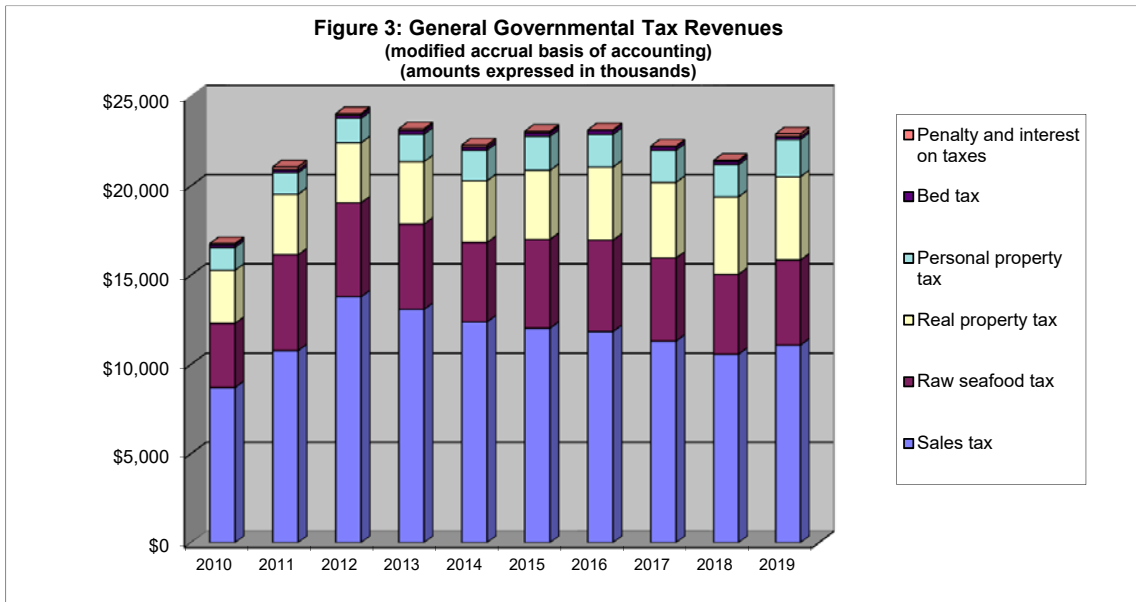


Table 8

CITY OF UNALASKA, ALASKA
 Assessed and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (Amount expressed in thousands)

Fiscal year	Real property		Personal property		Total		Ratio of assessed value to estimated	Total direct tax rate
	Assessed value	Estimated value	Assessed value	Estimated value	Assessed value	Estimated value		
2010	\$ 329,903	378,069	122,778	140,704	452,681	518,773	87	10.50
2011	321,616	382,876	132,439	157,665	454,055	540,541	84	10.50
2012	330,239	393,142	134,744	160,410	464,983	553,552	84	10.50
2013	330,908	376,032	161,341	183,342	492,249	559,374	88	10.50
2014	367,166	410,517	177,979	198,993	545,145	609,510	89	10.50
2015	396,455	435,665	182,178	200,196	578,633	635,861	91	10.50
2016	397,350	428,733	171,733	185,297	569,083	614,030	93	10.50
2017	416,223	447,552	174,302	187,422	590,525	634,974	93	10.50
2018	427,990	433,082	166,579	168,679	594,569	601,761	99	10.50
2019	432,932	433,921	191,363	193,952	624,295	627,873	99	10.50

Table 9

CITY OF UNALASKA, ALASKA

City Tax Rates

All Governments

Last Ten Fiscal Years

	Total city millage rate (1)	City Sales Tax rate (2)	City Raw Seafood Tax rate (3)
Fiscal year ending:			
2010	10.50	3.00	2.00
2011	10.50	3.00	2.00
2012	10.50	3.00	2.00
2013	10.50	3.00	2.00
2014	10.50	3.00	2.00
2015	10.50	3.00	2.00
2016	10.50	3.00	2.00
2017	10.50	3.00	2.00
2018	10.50	3.00	2.00
2019	10.50	3.00	2.00

(1) The rate is per thousand dollars of assessed value. There are no restrictions or mandates on the rate nor is there a separate component for debt service.

(2) Per Ordinance Section 6.40.020.

(3) Per Ordinance Section 6.44.020.

Note: There are no overlapping governmental units.

Table 10

CITY OF UNALASKA, ALASKA
Principal Real Property Taxpayers
June 30, 2019 and 2010

	2019			2010		
	Total assessed value	Rank	Percentage of total taxable assessed value	Total assessed value	Rank	Percentage of total taxable assessed value
Ounalashka Corporation and subsidiaries	\$ 192,585,815	1	28.7 %	\$ 88,682,856	1	26.9 %
Unisea Inc.	58,996,950	2	8.8	22,106,750	3	6.7
Western Pioneer Inc.	50,876,055	3	7.6	15,705,118	5	4.8
Westward Seafoods Inc.	27,556,500	4	4.1	24,888,000	2	7.5
Alyeska Seafoods Inc.	21,617,790	5	3.2	19,534,094	4	5.9
Offshore Systems Inc.	16,349,300	6	2.4	10,419,100	6	3.2
Strong Holdings LLC	12,473,410	7	1.9	3,027,790	9	0.9
Kloosterboer Dutch Harbor, LLC	7,682,700	8	1.1	—	—	—
Valdez Petroleum Terminal Inc.	4,728,630	9	0.7	3,868,000	7	1.2
Petro Star	4,296,000	10	0.6	—	—	—
All Remaining Taxpayers	273,411,821		40.8	141,671,292		42.9
	\$ 670,574,971		100.0 %	\$ 329,903,000		100.0 %

Table 11

CITY OF UNALASKA, ALASKA

Principal Electric Utility Customers

June 30, 2019 and 2010

Taxpayer	2019			2010		
	Receipts from customer	Rank	Percentage of total electric utility customers billed	Receipts from customer	Rank	Percentage of total electric utility customers billed
American President Lines	\$ 3,905,355	1	22.6	1,748,017	1	16.7
Alyeska Seafoods	3,268,548	2	18.9	—	—	—
Horizon Lines	2,049,729	3	11.8	1,255,556	2	12.0
City of Unalaska	1,300,002	4	7.5	1,133,290	3	10.8
Westward Seafoods	531,433	5	3.1	—	—	—
Safeway	513,955	6	3.0	483,906	5	4.6
Kloosterboer	508,698	7	2.9	386,538	6	3.7
Coastal Transportation	409,349	8	2.4	318,969	9	3.0
Alaska Ship Supply	396,916	9	2.3	489,504	4	4.7
Unalaska City School	363,916	10	2.1	366,933	8	3.5
North Pacific Fuel	—	—	—	374,603	7	3.6
Pacific Stevedoring, Inc.	—	—	—	290,177	10	2.8
All other customers	4,055,877		23.4	3,641,090		34.6
	<u>\$ 17,303,778</u>		<u>100.0</u>	<u>10,488,583</u>		<u>100.0</u>

Table 12

CITY OF UNALASKA, ALASKA
 Property Tax Levies and Collections
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

<u>Fiscal year</u>	<u>Total tax levy</u>	<u>Current tax collections</u>	<u>Percent of levy collected</u>	<u>Delinquent tax collections</u>	<u>Total tax collections</u>	<u>Percent of total tax collections to tax levy</u>	<u>Outstanding delinquent taxes</u>	<u>Percent of delinquent taxes to tax levy</u>
2010	\$ 4,299	4,249	98.8	6	4,255	99.0	44	1.0
2011	4,645	4,622	99.5	8	4,630	99.7	15	0.3
2012	4,760	4,689	98.5	59	4,748	99.7	12	0.3
2013	4,986	4,948	99.2	—	4,948	99.2	38	0.8
2014	5,141	5,090	99.0	—	5,090	99.0	51	1.0
2015	5,725	5,656	98.8	40	5,696	99.5	29	0.5
2016	6,076	5,854	96.3	24	5,878	96.7	198	3.3
2017	6,183	5,942	96.1	89	6,031	97.5	152	2.5
2018	6,243	6,129	98.2	15	6,144	98.4	99	1.6
2019	6,555	6,450	98.4	11	6,461	98.6	94	1.4

Table 13

CITY OF UNALASKA, ALASKA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capital amount)

<u>Fiscal year</u>	<u>Governmental activities</u> <u>General obligation bonds</u>	<u>Business type activities</u> <u>Ports and harbors fund GO bonds</u>	<u>Electric fund revenue bonds</u>	<u>ADEC loans</u>	<u>Total primary government</u>	<u>Percentage of personal income</u>	<u>Per capita</u>
2010	\$ 7,796	5,000	25,000	352	38,148	24 %	8,718
2011	6,974	4,815	30,380	309	42,478	24	9,734
2012	6,186	4,635	29,560	265	40,646	21	8,515
2013	5,460	4,450	28,715	222	38,847	19	8,893
2014	4,698	4,260	27,845	178	36,981	58	7,800
2015	3,954	4,065	28,085	4,605	40,709	14	8,840
2016	3,114	3,942	29,175	16,006	52,237	17	11,270
2017	2,243	34,856	28,068	16,656	81,823	*	18,849
2018	1,333	34,576	26,916	15,748	78,573	*	*
2019	387	34,290	25,714	14,834	75,225	*	*

* Data unavailable or incomplete

Table 14

CITY OF UNALASKA, ALASKA

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capita amount)

Fiscal year		General obligation bonds	Percentage of estimated actual taxable value of property	Per capita
2010	\$	7,796	1.50	1,782
2011		6,974	1.29	1,598
2012		6,186	1.12	1,288
2013		5,460	0.98	1,242
2014		4,698	0.77	985
2015		3,954	0.62	843
2016		3,114	0.52	700
2017		2,243	0.35	496
2018		1,333	0.22	*
2019		387	0.09	*
				Population Not available

Table 15

CITY OF UNALASKA, ALASKA

Direct Governmental Activities Debt (1)

June 30, 2019

Jurisdiction	Outstanding debt	Percentage applicable to City of Unalaska	Amount applicable to City of Unalaska
Direct:			
City of Unalaska	\$ 387,402	100.00 %	387,402

(1) Direct debt is long-term debt and does not include long-term liabilities such as internal advances, accrued landfill closure costs, or compensated absences.

Note: There are no overlapping governmental units.

CITY OF UNALASKA, ALASKA

Legal Debt Margin Information

June 30, 2019

There is no legal debt margin for municipalities in the State of Alaska.

Table 17

CITY OF UNALASKA, ALASKA
 Pledged-Revenue Coverage
 Electric Fund

<u>Fiscal year</u>	<u>Operating revenues</u>	<u>Operating expenses (1)</u>	<u>Income from operations</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage (2)</u>
2014	\$ 18,825,315	14,424,067	4,401,248	870,000	1,478,167	2,348,167	187
2015	16,571,260	11,780,405	4,790,855	910,000	1,420,542	2,330,542	206
2016	13,527,050	9,811,512	3,715,538	920,000	1,027,254	1,947,254	191
2017	17,198,440	11,505,578	5,692,862	990,000	1,123,667	2,113,667	269
2018	18,488,321	12,605,358	5,882,963	1,035,000	1,095,544	2,130,544	276
2019	17,303,778	12,880,067	4,423,711	1,085,000	910,675	1,995,675	222

- (1) Operating expenses exclude depreciation.
- (2) Rates are required to generate net revenues equal to or greater than 135% times annual debt payments.

CITY OF UNALASKA, ALASKA

Demographic Statistics

Last Ten Fiscal Years

Calendar year	Unalaska population (1)	Aleutians west region personal income (amounts expressed in thousands) (2)	Aleutians west region per capita personal income (2)	Unalaska school enrollment (3)	Aleutians west region unemployment (4)
2010	4,376	\$ 159,644	28,791	407	6.9
2011	4,389	175,274	31,845	412	7.8
2012	4,516	195,082	35,525	414	9.1
2013	4,516	202,105	36,673	415	8.8
2014	4,517	304,806	53,010	407	4.8
2015	4,440	299,746	52,569	396	3.8
2016	4,448	316,823	56,105	375	3.3
2017	4,341	301,733	53,010	389	3.7
2018	4,333	311,245	54,385	400	3.5
2019	*	*	*	412	*

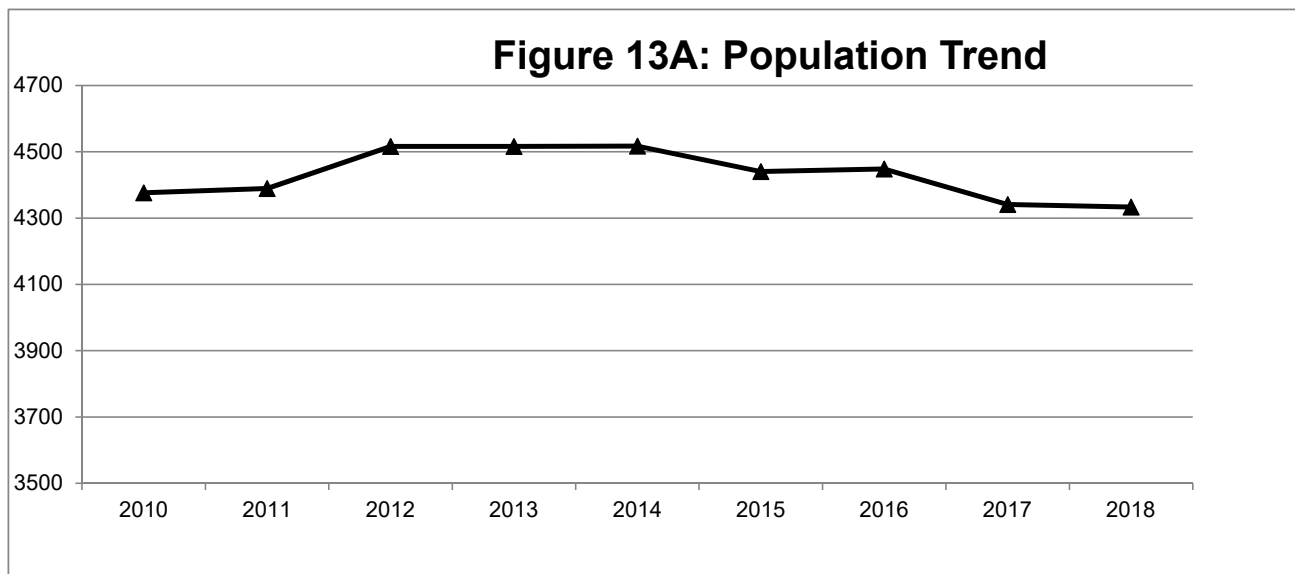
* Data unavailable or incomplete.

(1) Source – Alaska Department of Commerce, Community and Economic Development

(2) Source – U.S. Department of Commerce, Bureau of Economic Analysis: Statistics are kept for the region, not for the City of Unalaska.

(3) Source – Unalaska City School District: Official fall count of calendar year.

(4) Source – Alaska Department of Labor: Statistics are kept for the region, not for the City of Unalaska.



CITY OF UNALASKA, ALASKA

Table 19

Principal Employers

Alaska Department of Labor can no longer give out any information related to employers in Alaska due to new federal regulations.

Table 20

CITY OF UNALASKA, ALASKA
 Full-Time Equivalent City Government Employees by Function
 Last Ten Fiscal Years

Function	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General government:										
Council	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96
Manager	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00
Administration	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Clerk	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Finance	11.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
IS	2.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Planning	3.00	3.00	3.00	3.00	3.00	3.00	3.00	4.00	4.00	4.56
Public safety:	22.00	22.00	22.00	22.00	22.00	22.00	22.00	24.50	24.50	19.50
Correction	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Fire protection	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	5.00	10.00
Public works:										
Public works administration	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Streets and roads	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.00	10.00	10.50
Supply	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Vehicle department	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Building maintenance	8.00	8.00	8.35	8.35	8.78	8.50	9.00	9.00	9.00	9.00
Parks, culture, and recreation:										
Community center	12.00	12.00	12.00	12.00	12.00	12.50	12.50	12.89	12.89	12.89
Libraries	4.50	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Community pool	5.50	5.50	5.00	5.00	5.00	4.25	4.25	4.78	4.78	4.76
Public utilities administration	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Electric	13.00	13.00	13.00	13.00	14.00	14.00	14.33	13.00	13.00	13.00
Water	4.00	4.00	4.33	4.66	5.00	5.00	5.00	5.00	5.00	5.00
Wastewater	3.34	3.34	3.34	4.00	4.50	5.17	3.50	7.00	7.00	7.00
Ports and airport	10.00	10.00	10.00	9.00	10.00	10.00	10.00	11.00	11.00	11.00
Solid waste	4.33	4.33	4.33	4.50	4.50	4.50	4.50	4.50	5.50	5.50
Total employees	153.63	154.63	156.31	156.47	159.74	159.88	159.04	166.13	167.13	168.17

Notes:

1. Source: City of Unalaska, *Operating and Capital Budgets*

Table 21

CITY OF UNALASKA, ALASKA

Operating Indicators by Function

Last Ten Fiscal Years

Function	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Police:										
Custodies	320	257	274	241	271	263	325	267	124	148
Fire:										
Fire response	37	50	42	29	21	49	38	30	42	42
Burn permits	116	129	99	65	65	129	114	92	73	73
Fire safety	26	41	15	17	20	35	14	28	18	18
EMS:										
EMS ambulance Calls	107	147	184	131	113	290	186	148	101	101
Public works:										
Building permits issued	55	34	18	14	27	25	21	21	18	18
Parks, culture, and recreation:										
Community Center admissions	84,134	72,889	89,178	42,747	43,161	43,158	41,194	42,407	42,407	50,445
Aquatic center attendance	19,072	14,631	18,348	11,950	13,219	16,928	13,317	16,181	16,181	18,148
CC & aquatic center volunteer hours	1,334	1,908	1,731	1,693	975	894	885	889	889	1,101
Library volunteer hours	410	733	667	766	116	98	83	49	63	110
Library circulation	208,749	211,841	239,936	267,630	196,852	198,012	75,916	67,346	80,837	87,103
Library attendance	115,735	113,439	105,931	138,955	91,252	71,537	41,060	47,802	52,792	51,679
Electric:										
Power generated MW	30,060	37,998	46,958	43,742	45,198	44,411	43,213	58,515	58,515	53,379
Water:										
Water produced (MG)	971	1,090	1,204	1,262	1,164	1,163	1,246	1,284	1,284	1,284
Daily pumping capacity (MGD)	4	4	4	4	4	4	4	4	4	4
Total daily capacity (MGD)	12	12	12	12	12	12	13	13	13	13
Wastewater:										
Average daily treatment (MG)	0.47	0.56	0.55	0.43	0.43	0.39	0.40	0.41	0.53	0.53
Solid waste:										
Tons of waste collected	6,061	6,442	7,128	7,484	7,238	7,508	8,419	6,440	6,440	6,440
Cubic yards of waste collected	8,637	8,978	10,625	10,678	10,910	11,022	11,760	10,934	10,934	10,934
Ports and harbors:										
UMC vessel calls	334	237	577	655	751	680	574	613	461	511
UMC wharfage tons	363,038	338,029	479,630	356,032	498,098	535,028	488,758	550,253	505,888	414,720
Airport:										
Passengers	52,613	55,135	53,698	59,792	51,424	54,200	*	57,710	*	54,596

* Data unavailable or incomplete

Source: City of Unalaska

Table 22

CITY OF UNALASKA, ALASKA

Capital Asset Statistics by Function

Last Ten Fiscal Years

Function	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Response vehicles	7	7	7	7	7	7	7	7	7	7
EMS:										
Ambulances	2	2	2	2	2	2	2	2	2	2
Public works:										
Miles of public roads	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Miles of paved roads	6.6	7.0	7.0	7.0	9.5	9.5	9.5	9.5	9.5	9.5
Street lights	179	179	179	179	245	246	251	317	317	317
Flashing/cautionary lights	9	9	9	9	15	15	15	15	15	15
Number of bridges	7	7	7	7	10	11	11	11	11	11
Parks, culture and recreation:										
Community Center	1	1	1	1	1	1	1	1	1	1
Library	1	1	1	1	1	1	1	1	1	1
Parks	8	8	8	8	8	8	8	8	8	8
Swimming Pool	1	1	1	1	1	1	1	1	1	1
Electric:										
Number of city owned power plants	1	1	1	1	1	1	1	1	1	1
Number of sub-stations	2	2	2	2	2	2	2	2	2	2
Water:										
Wells	4	4	4	4	4	4	3	3	3	3
Surface water treatment facilities	1	1	1	1	1	1	1	1	1	1
Miles of water lines	23	23	23	23	23	23	23	23	23	23
Number of connections	599	599	599	582	582	586	590	590	590	590
Wastewater:										
Sanitary sewers MH's	353	353	353	353	367	367	367	367	367	367
Miles of sewer lines	17	17	17	17	18	21	21	21	21	21
Lift stations	9	9	9	9	10	10	10	10	10	10
Solid waste:										
Landfills	1	1	1	1	1	1	1	1	1	1
Ports and harbors:										
Dock facilities – linear feet of docking:										
Unalaska Marine Center (UMC)	2,051	2,051	2,051	2,051	2,051	2,051	2,051	2,051	2,051	2,051
Spit Dock facility	1,975	1,975	1,975	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Light Cargo Dock	340	340	340	340	340	340	340	340	340	340
Small Boat Harbor	1,232	1,232	1,232	1,232	1,232	1,232	1,072	1,072	1,072	1,232
CEM Small Boat Harbor	*	*	5,919	5,919	5,919	5,919	5,919	5,919	5,919	5,878

Source: City of Unalaska



CITY OF UNALASKA, ALASKA



CITY OF UNALASKA, ALASKA

Federal and State of Alaska Single Audit
Reports and Supplementary Information

Year Ended June 30, 2019

CITY OF UNALASKA, ALASKA

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Mayor, Members of the City Council,
and Citizens of the City of Unalaska:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Unalaska, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Unalaska's basic financial statements, and have issued our report thereon dated December 20, 2019. Our report includes a reference to other auditors who audited the financial statements of the Unalaska City School District as described in our report on the City of Unalaska's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Unalaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Unalaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Unalaska's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedules of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item, 2019-001 to be a material weakness. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item, 2019-002 to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Unalaska's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Unalaska's Response to Findings

The City of Unalaska's response to the findings identified in our audit is described in the accompanying schedules of findings and questioned costs. The City of Unalaska's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Unalaska's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Unalaska's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 20, 2019



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Honorable Mayor, Members of the City Council,
and Citizens of the City of Unalaska:

Report on Compliance for Each Major Federal Program

We have audited the City of Unalaska's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Unalaska's major federal programs for the year ended June 30, 2019. The City of Unalaska's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Unalaska's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Unalaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Unalaska's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Unalaska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the City of Unalaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Unalaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on



compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Unalaska's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Unalaska as of and for the year ended, the related notes to the financial statements, which collectively comprise the City of Unalaska's basic financial statements. We issued our report thereon dated December 20, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

January 31, 2020

CITY OF UNALASKA, ALASKA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2019

<u>Grant title</u>	<u>Grant number</u>	<u>CFDA number</u>	<u>Total grant award</u>	<u>Federal expenditures</u>
U.S. Department of Interior:				
Pass through the State of Alaska Department of Commerce, Community, and Economic Development:				
Payments in Lieu of Taxes	*	15.226	\$ 861,478	861,478
Total U.S. Department of Interior			<u>861,478</u>	<u>861,478</u>
U.S. Department of Education:				
Passed through Ounalashka Corporation:				
Grants to States – Institute of Museum and Library Services	NG-01-18-0026-17	45.311	6,000	6,000
Passed through State of Alaska Education and Early Development:				
Alaska Library Association (AKLA) Continuing Education	CED-19-782-01	45.310	1,250	1,250
DirLead Interlibrary Cooperation	ILC-19-708-02	45.310	968	968
Total CFDA 45.310			<u>2,218</u>	<u>2,218</u>
Total U.S. Department of Education			<u>8,218</u>	<u>8,218</u>
Federal Communications Commission:				
Communications Information and Assistance and Investigation of Complaints:				
USAC – Schools and Libraries	1046256	32.001	47,849	47,849
Total Federal Communications Commission			<u>47,849</u>	<u>47,849</u>
U.S. Department of Homeland Security:				
Homeland Security Grant Program	20SHSP-GY16	97.067	324,140	282,400
Homeland Security Grant Program	20SHSP-GY17	97.067	153,895	10,030
Homeland Security Grant Program	20SHSP-GY18	97.067	1,112	1,112
Total U.S. Department of Homeland Security			<u>479,147</u>	<u>293,542</u>
Total federal awards			<u>\$ 1,396,692</u>	<u>1,211,087</u>

* Not available.

See accompanying independent auditors' report and notes to schedule.

CITY OF UNALASKA, ALASKA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Unalaska under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Unalaska, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Unalaska.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Reporting Entity

The City of Unalaska, for purposes of the schedule of expenditures of federal awards, includes all the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*. It does not include the component unit of the City of Unalaska, the Unalaska City School District. This component unit also receives federal awards, but separately satisfies the audit requirements of the Uniform Guidance, if applicable.

(4) Indirect Cost Rate

The City of Unalaska has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(5) Federal Loan Programs

The balance of loans outstanding at June 30, 2019 consists of:

	Beginning balance	Current year additions	Ending balance
66.458 – Clean Water	\$ 1,761,627	—	1,761,627
66.468 – Drinking Water	1,380,622	—	1,380,622
	<u>\$ 3,142,249</u>	<u>—</u>	<u>3,142,249</u>

(6) Amounts Passed through to Subrecipients

During the year ended June 30, 2019, the City of Unalaska did not pass through any federal award amounts to subrecipients.

CITY OF UNALASKA, ALASKA

Schedule of Findings and Questioned Costs – Federal

Year ended June 30, 2019

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
 - Payments in Lieu of Taxes – CFDA number 15.226
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding: 2019–001 Internal Controls over Vendor Change Payment Management

Criteria: The City of Unalaska should have sufficient controls in place to prevent, or detect and correct, errors in the changes in vendor payment methods process. Internal controls are particularly important over changes in vendors who pay electronically.

Condition: The City of Unalaska's internal control over changes in vendor payment management did not prevent, or detect and correct, errors. During our audit, we identified that a lack of review over requests received from vendors via email to change their payment from disbursement check to ACH payment were not properly reviewed and approved prior to implementation, resulting in the City of Unalaska falling victim to a phishing email scheme. This lack of review causes management to not identify potential fraudulent requests. This resulted in a material weakness due to a lack of sufficient controls over vendor payment change management.

Cause: The City of Unalaska's processes and controls related to vendor payment changes were not sufficient to properly identify fraudulent requests.

CITY OF UNALASKA, ALASKA

Schedule of Findings and Questioned Costs – Federal

Year ended June 30, 2019

Effect or potential effect: Misstatements may exist and go undetected in the general ledger and financial statements. Additionally, the City of Unalaska was the victim of a phishing scheme resulting in a misappropriation of funds.

Recommendation: The City of Unalaska should consider whether staff members have the adequate training over phishing schemes, particularly those done through email. It is also recommended that the City of Unalaska implement a control over vendor payment change management to include verbal confirmation with the vendor to confirm vendor payment changes to ensure that any banking changes are being made by the legitimate vendor only.

Views of Responsible Officials: The City of Unalaska conducted an analysis of vendors paid by ACH to ensure payments made were received by the vendor. Furthermore, the City of Unalaska implemented changes to their vendor payment change process requiring a voided check from the vendor and a face-to-face or phone call to the vendor at the phone number in the City's records. The City of Unalaska also reminded all employees of the importance to carefully evaluate all requests received via email to ensure they represent a valid business purpose and are not fraudulent in nature.

Finding: 2019–002 Overtime Approval

Criteria: The City of Unalaska's Code of Ordinances, § 3.44.020, Overtime Procedures states:

Overtime payment will be received by all employees except for those employees who, by the nature of their work, are deemed by the city to be overtime exempt. All overtime worked must have the approval of the Department Director, or his/her designee, prior to its performance. All overtime records are subject to review by the City Manager. Department Directors will seek to minimize overtime wherever practicable. Overtime shall be scheduled as fairly and equally as practicable among employees, based first on qualifications to perform the work and secondly on seniority.

Condition found: The City of Unalaska's internal control over the approval of overtime did not prevent or detect unapproved overtime. During our audit, we identified instances in which the controls and compliance with the City of Unalaska Code of Ordinances, § 3.44.020, Overtime Procedures, specifically as it relates to approval of overtime was not being followed (overtime approval received prior to performance of overtime, and if not proper documentation of the reason and documentation supporting why overtime work was necessary, seeking to minimize overtime wherever practicable). This resulted in a significant deficiency due to deficiencies in controls over compliance with City Ordinance § 3.44.020, Overtime Procedures.

Cause: The City of Unalaska does not adhere to its Code of Ordinances, § 3.44.020, Overtime Procedures, specifically as it relates to approval of overtime.

Effect or potential effect: The City of Unalaska's assets are at risk of misappropriation due to undocumented or unapproved overtime.

CITY OF UNALASKA, ALASKA

Schedule of Findings and Questioned Costs – Federal

Year ended June 30, 2019

Recommendation: The City of Unalaska should consider whether staff have the adequate training, capacity, resources, experience, and time to perform an appropriate level of review of overtime approval, particularly prior to its occurrence. Furthermore, we recommend that the City implement a process whereby all overtime is properly documented in a timely manner that clearly indicates the nature and purpose of the overtime worked such that it is readily apparent why overtime was necessary. It is also recommended that the City of Unalaska implement an internal review of its departments and overall overtime Code of Ordinances, § 3.44.020 and ensure that the Code of Ordinances, § 3.44.020 is efficient and effective for each department given resources and general need for overtime.

Views of Responsible Officials: The City of Unalaska will review their Code of Ordinances as it relates to overtime and update them as necessary. Additionally, management has developed a process and internal control structure that requires that all overtime include documentation regarding the nature of work performed and why it was necessary and could not be performed within the normal work day.

(3) Findings and Questioned Costs Relating to Federal Awards

No matters are reportable.



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of State Financial Assistance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

The Honorable Mayor, Members of the City Council,
and Citizens of the City of Unalaska:

Report on Compliance for Each Major State Program

We have audited the City of Unalaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of Unalaska's major state programs for the year ended June 30, 2019. The City of Unalaska's major state programs are identified in the schedule of state financial assistance.

The City of Unalaska's financial statements include the operations of the Unalaska City School District, which received \$5,357,398 in state awards, which is not included in the schedule of state financial assistance for the year ended June 30, 2019. Our audit, described below, did not include the operations of the Unalaska City School District because the component unit engaged other auditors to perform an audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Unalaska's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the City of Unalaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the City of Unalaska's compliance.

Opinion on Each Major State Program

In our opinion, the City of Unalaska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.



Report on Internal Control over Compliance

Management of the City of Unalaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Unalaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Unalaska's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of State Financial Assistance by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Unalaska as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Unalaska's basic financial statements. We issued our report thereon dated December 20, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

January 31, 2020

CITY OF UNALASKA, ALASKA
Schedule of State Financial Assistance
Year ended June 30, 2019

Name of award	Grant number	Total grant award	Total state expenditures	Major program
Department of Education and Early Development:				
Debt Retirement 2015I AREF 4105 ISSUE	*	\$ 287,559	287,559	Yes
Debt Retirement 2009II 31609 ISSUE	*	383,259	383,259	Yes
Public Library Assistance Grant	PLA-18-782-01	7,000	7,000	
Alaska State Library On-Line With Libraries (OWL) Broadband Grant	Unalaska Library	27,099	27,099	
Total Department of Education and Early Development		<u>704,917</u>	<u>704,917</u>	
Department of Revenue:				
Fisheries Business Tax	*	3,306,990	3,306,990	Yes
Fisheries Resource Landing Tax	*	4,855,139	4,855,139	Yes
State Liquor License	*	2,500	2,500	
Commercial Passenger Vessel Excise Tax Share	*	3,205	3,205	
Total Department of Revenue		<u>8,167,834</u>	<u>8,167,834</u>	
Department of Military and Veteran's Affairs:				
Local Emergency Planning	20LEPC-GY19	10,400	10,400	
Total Military and Veteran's Affairs		<u>10,400</u>	<u>10,400</u>	
Department of Environmental Conservation:				
Water Treatment	87932	—	—	
Total Department of Environmental Conservation		<u>—</u>	<u>—</u>	
Department of Administration:				
PERS Contribution	*	719,808	719,808	Yes
Passed through the Aleutian Housing Authority:				
Senior Center Payments in Lieu of Taxes	*	5,133	5,133	
Total Department of Administration		<u>724,941</u>	<u>724,941</u>	
Department of Commerce, Community, and Economic Development:				
Fisheries Business Tax	*	221,510	221,510	Yes
Fisheries Resource Landing Tax	*	365,819	365,819	Yes
Community Revenue Sharing	*	158,480	158,480	Yes
Total Department of Commerce, Community, and Economic Development		<u>745,809</u>	<u>745,809</u>	
Total State Assistance		<u>\$ 10,353,901</u>	<u>10,353,901</u>	

* Not available.

See accompanying independent auditors' report and notes to schedule.

CITY OF UNALASKA, ALASKA

Notes to Schedule of State Financial Assistance

Year ended June 30, 2019

(1) Basis of Presentation

The accompanying schedule of state financial assistance (the Schedule) includes the State of Alaska award activity of the City of Unalaska under programs of the State of Alaska for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the schedule presents only a selected portion of the operations of the City of Unalaska, it is not intended to and does not present the financial position of the City of Unalaska as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting.

(3) Reporting Entity

The City of Unalaska, for purposes of the schedule of state financial assistance, includes all the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*. It does not include the component unit of the City of Unalaska, the Unalaska City School District. This component unit also receives State of Alaska financial assistance, but separately satisfies the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, if applicable.

CITY OF UNALASKA, ALASKA
 Schedule of Findings and Questioned Costs – State
 Year ended June 30, 2019

(1) Summary of Auditors' Results

Financial Statements

Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weakness(es) identified? ___X___ yes ___ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___X___ yes ___ none reported

Noncompliance material to the financial statements noted?

___ yes X no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

___ yes X no

Dollar threshold used to distinguish major programs: \$75,000

(2) Financial Statement Findings Reportable under Government Auditing Standards

Finding: 2019–001 Internal Controls over Vendor Change Payment Management

Criteria: The City of Unalaska should have sufficient controls in place to prevent, or detect and correct, errors in the changes in vendor payment methods process. Internal controls are particularly important over changes in vendors who pay electronically.

CITY OF UNALASKA, ALASKA

Schedule of Findings and Questioned Costs – State

Year ended June 30, 2019

Condition: The City of Unalaska's internal control over changes in vendor payment management did not prevent, or detect and correct, errors. During our audit, we identified that a lack of review over requests received from vendors via email to change their payment from disbursement check to ACH payment were not properly reviewed and approved prior to implementation, resulting in the City of Unalaska falling victim to a phishing email scheme. This lack of review causes management to not identify potential fraudulent requests. This resulted in a material weakness due to a lack of sufficient controls over vendor payment change management.

Cause: The City of Unalaska's processes and controls related to vendor payment changes were not sufficient to properly identify fraudulent requests.

Effect or potential effect: Misstatements may exist and go undetected in the general ledger and financial statements. Additionally, the City of Unalaska was the victim of a phishing scheme resulting in a misappropriation of funds.

Recommendation: The City of Unalaska should consider whether staff members have the adequate training over phishing schemes, particularly those done through email. It is also recommended that the City of Unalaska implement a control over vendor payment change management to include verbal confirmation with the vendor to confirm vendor payment changes to ensure that any banking changes are being made by the legitimate vendor only.

Views of Responsible Officials: The City of Unalaska conducted an analysis of vendors paid by ACH to ensure payments made were received by the vendor. Furthermore, the City of Unalaska implemented changes to their vendor payment change process requiring a voided check from the vendor and a face-to-face or phone call to the vendor at the phone number in the City's records. The City of Unalaska also reminded all employees of the importance to carefully evaluate all requests received via email to ensure they represent a valid business purpose and are not fraudulent in nature.

Finding: 2019-002 Overtime Approval

Criteria: The City of Unalaska's Code of Ordinances, § 3.44.020, Overtime Procedures states:

Overtime payment will be received by all employees except for those employees who, by the nature of their work, are deemed by the city to be overtime exempt. All overtime worked must have the approval of the Department Director, or his/her designee, prior to its performance. All overtime records are subject to review by the City Manager. Department Directors will seek to minimize overtime wherever practicable. Overtime shall be scheduled as fairly and equally as practicable among employees, based first on qualifications to perform the work and secondly on seniority.

Condition found: The City of Unalaska's internal control over the approval of overtime did not prevent or detect unapproved overtime. During our audit, we identified instances in which the controls and compliance with the City of Unalaska Code of Ordinances, § 3.44.020, Overtime Procedures, specifically as it relates to approval of overtime was not being followed (overtime approval received prior to performance of overtime, and if not proper documentation of the reason and documentation supporting why overtime work was necessary, seeking to minimize overtime wherever practicable). This resulted in a significant deficiency due to deficiencies in controls over compliance with City Ordinance § 3.44.020, Overtime Procedures.

CITY OF UNALASKA, ALASKA
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Cause: The City of Unalaska does not adhere to its Code of Ordinances, § 3.44.020, Overtime Procedures, specifically as it relates to approval of overtime.

Effect or potential effect: The City of Unalaska’s assets are at risk of misappropriation due to undocumented or unapproved overtime.

Recommendation: The City of Unalaska should consider whether staff have the adequate training, capacity, resources, experience, and time to perform an appropriate level of review of overtime approval, particularly prior to its occurrence. Furthermore, we recommend that the City implement a process whereby all overtime is properly documented in a timely manner that clearly indicates the nature and purpose of the overtime worked such that it is readily apparent why overtime was necessary. It is also recommended that the City of Unalaska implement an internal review of its departments and overall overtime Code of Ordinances, § 3.44.020 and ensure that the Code of Ordinances, § 3.44.020 is efficient and effective for each department given resources and general need for overtime.

Views of Responsible Officials: The City of Unalaska will review their Code of Ordinances as it relates to overtime and update them as necessary. Additionally, management has developed a process and internal control structure that requires that all overtime include documentation regarding the nature of work performed and why it was necessary and could not be performed within the normal work day.

(3) State of Alaska Financial Assistance Findings and Questioned Costs

No matters are reportable.